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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

H.R. 5177

AN ACT MAKING APPROPRIATIONS FOR AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1987, AND FOR OTHER PURPOSES

PART 1 (Pages 1-580)

DEPARTMENT OF AGRICULTURE
EXPLORING METHODS TO CONTAIN AND CURTAIL AVIAN FLU (SPECIAL)
SUPPLEMENTAL BUDGET REQUEST OF THE COMMODITY CREDIT CORPORATION (SPECIAL)

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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

WEDNESDAY, FEBRUARY 5, 1986

U.S. Senate,
Subcommittee on Agriculture, Rural Development,
and Related Agencies,
Committee on Appropriations,
Washington, DC.

The subcommittee met at 10:10 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Arlen Specter presiding.

Present: Senators Specter, Kasten, Mattingly, and Bumpers.

Also present: Senators Lautenberg, Roth, and Heinz.

EXPLORING METHODS TO CONTAIN AND CURTAIL AVIAN FLU

OPENING REMARKS

Senator Specter. The hearing of the Agriculture Subcommittee of the Committee on Appropriations will now proceed.

At the outset, I thank the distinguished Senator from Mississippi, Senator Cochran, the chairman of this subcommittee, for responding to the request to convene this hearing so promptly.

The problem of avian flu is a major problem for poultry producing States, and an important problem for the Nation. Chairman Cochran would have been here, but he has been asked by the President to participate in the oversight of the Philippine elections. It was his wish that we proceed with this hearing at the earliest possible date.

Regrettably, we have already had substantial experience with the problem of avian flu back in the 1983–84 epidemic when Pennsylvania alone experienced a loss of some 16 million birds, with resulting costs to the Commodity Credit Corporation of some $50 million.

With that experience behind us, we now are alerted to a new outbreak of avian flu. It is the sense of this subcommittee that prompt action be taken to contain and curtail this problem. We have already had a loss in Pennsylvania of some 226,700 birds, in Delaware of some 200,000, in New Jersey of some 98,000, and Massachusetts of 2,700.

The preliminary information suggests that the problem originates in New York. The purpose of this hearing is to discover the origin of the disease, what is currently being done to combat it, and what needs to be done to control it. The problem is one of serious national import, with avian flu having the potential to spread nationwide. North Carolina is not that far away from the disease. Georgia is not far away either. We have with us this morning the distinguished Senator from Georgia, my colleague and friend, Senator Mattingly, whom I turn to now for an opening statement.

Senator MATTINGLY. Thank you, Mr. Chairman. I don't really have any opening statement. I just hope that the witnesses here today will address those areas you have already identified. In reference to 2 years ago, when the disease broke out, it did not spread to the Southeast. I would like the witnesses to address what the prospects are of containing it within the area where it has already broken out at this time; second, do you anticipate that any of the initial fiscal year 1986 reductions will jeopardize your eradication program.

That, Mr. Chairman, is what I would like them to address, and I thank you very much for holding the hearing.

Senator SPECTER. Thank you very much, Senator Mattingly.

I want to turn now to the distinguished panel consisting of the agriculture experts from Pennsylvania, New York, and Delaware. We have with us the Honorable Richard E. Grubb, the Secretary for the Pennsylvania Department of Agriculture; the Honorable Joseph Gerace, Commissioner of the New York Department of Agriculture and Markets; and the Honorable Bill Chandler, Secretary of the Delaware Department of Agriculture.

We very much appreciate your joining us, gentlemen. I would like to start with the very distinguished Secretary from Pennsylvania, a good friend of mine, Dick Grubb. The floor is yours, Mr. Secretary.

PENNSYLVANIA DEPARTMENT OF AGRICULTURE

STATEMENT OF THE HONORABLE RICHARD E. GRUBB, SECRETARY

Mr. GRUBB. Thank you, Senator.

Mr. Chairman, members of the committee, I appreciate this opportunity to update you on our efforts in Pennsylvania to deal with the avian influenza outbreak, not only in Pennsylvania, but in the Northeast.

As a little background, Pennsylvania's poultry industry is a $450 million-a-year industry, and it is the second largest segment of the State's agricultural economy. Beyond the farm itself, approximately 25,000 Pennsylvanians owe their jobs to this industry. The poultry and egg industry accounts for approximately $73 million in farm receipts annually in those few counties which right now are affected by the current outbreak.

EFFECTS ON PENNSYLVANIA

Reference was made to the 1983–84 outbreak, and indeed this industry was dramatically impacted by the outbreak at that time, not only Pennsylvania, but several of our sister States. In Pennsylvania alone, 381 farms were impacted, resulting in the depopulation of nearly 16 million birds valued at $36 million. Industry experts estimate that the total loss to the industry in our State, in central Pennsylvania's economy, to be more than $150 million.

Through the combined efforts of the Federal Government, the State, and the industry, we were able to completely eradicate avian influenza in Pennsylvania by October 1984. However, this effort was not without substantial costs being incurred in addition to the losses sustained by the industry. More than $51 million was provided by USDA, and over $3 million was made available from the Commonwealth to check the spread of this deadly virus.

With this successful eradication of avian influenza in Pennsylvania, Governor Thornburgh sought and obtained an additional one-half million dollars of support in State funds for research devoted to avian influenza and for a marketing effort to revitalize the poultry industry and attempt to restore our lost markets.

SURVEILLANCE AND MONITORING

Most importantly, since 1984, we have actively conducted an extensive surveillance program on eggs and blood samples throughout the State. However, on December 30, 1985, a routine diagnostic investigation of a respiratory problem in Snyder County indicated the presence of the avian influenza virus in a flock of broiler-roaster type of birds. Serological tests revealed a high number of avian influenza antibodies, and H5N2 was recovered at the National Veterinary Services Laboratory in Ames, IA. The poultry industry was alerted, and an intensive surveillance program was instituted in a 7½ mile radius of this flock.

With the cooperation of the industry, surveillance and monitoring of poultry flocks has drastically increased throughout Pennsylvania. We have acted very quickly to survey suspected areas of infection, placing immediate quarantine on affected flocks and quickly depopulating.

To date, seven flocks with approximately 215,000 birds have been depopulated at an estimated cost of about half a million dollars. An additional flock of 9,600 birds was confirmed as recently as last night as I was leaving the office to come down here. Affected farmers will be receiving indemnity payments from the Commonwealth for 90 percent of the market value of the birds depopulated by our department.

CAUSE OF CURRENT OUTBREAK

This current outbreak appears to have been introduced into Pennsylvania rather recently. The fact that recent blood tests obtained through our extensive surveillance program have not shown antibodies, suggests that we are identifying, through surveillance, flocks which are undergoing the initial stages of the infection.

State and Federal epidemiologists have indicated that truckers hauling live birds and unsanitized crates and equipment probably reintroduced this virus back into Pennsylvania, with a likely source of the disease being from a supplier in New York City.

It is likely that truckers hauled infected birds, and then transmitted the virus to Pennsylvania when transporting birds to and from the flocks now infected. It is clear that we are dealing with a serious problem that transcends any one individual State. For example, on January 23, USDA reported that a flock of broiler chickens in Massachusetts was infected with the avian influenza. That flock has been depopulated and buried.

On January 30, a flock of 98,000 layer hens in New Jersey was identified as infected with avian influenza and has also been depopulated and buried. On January 30, the Delmarva Poultry Industry, Inc., reported that it was depopulating more than 200,000 birds because of contact with trucks which had moved interstate after being exposed to the virus. On Monday, three flocks of chickens in New York were confirmed as having avian influenza.

STEPS TO PREVENT FURTHER SPREAD OF VIRUS

Mr. Chairman, I am very concerned that steps be taken to ensure that this serious regional problem does not become a national epidemic. In Pennsylvania, we are doing everything that we can to eradicate avian influenza. The Pennsylvania poultry industry has been very cooperative with the department. We have been meeting on a continuing basis with State poultrymen to discuss their needs and the impact of this disease on their operations. This joint communication is essential and will continue.

As I mentioned previously, surveillance and monitoring of poultry flocks has been increased throughout the State. On January 24, I instituted a toll-free phone line for poultrymen and allied industries with questions about the outbreak and its effects on poultry.

As recently as today, I took several additional steps through a special quarantine order to protect Pennsylvania's poultry industry from reintroduction and spread of the virus, and again, we worked with the industry in coming up with this order. Some of these steps include:

A ban on transportation to and sales of live poultry at Pennsylvania livestock auctions;

A ban on transportation of live poultry to poultry shows, fairs, and exhibitions;

Strict sanitary measures on trucks, coops, cages, crates, and other poultry equipment moving to and from farms;

Isolation of premises with suspected or confirmed cases of avian influenza;

Measures governing release from the special quarantine order to ensure that infected and exposed birds are depopulated, premises cleaned and disinfected, and held vacant for 30 days;

Restrictions on movement of poultry into interstate commerce;

Expansion of the already extensive Pennsylvania monitoring and surveillance program throughout the State to detect the presence of avian influenza; and finally,

Restrictions on the importation of live poultry and eggs into Pennsylvania.

As I said, these are steps, and the order is being signed today.

I should point out that this last requirement pertains to States in which avian influenza exists. That last requirement, again, is restrictions on the importation of poultry and eggs into Pennsylvania. We are concerned that this is a national problem. This regulation would provide access to Pennsylvania for birds and hatching eggs from flocks which have monitoring programs, but it will also help prevent reintroduction of the disease into our Pennsylvania flocks.

Governor Thornburgh has reaffirmed his commitment to taking the necessary steps within our resources to protect this industry. His commitment to cover the cost of indemnities and our expenses to date has enabled me to make immediate decisions which are critical to the success of our eradication program. He has also called on the Pennsylvania General Assembly to provide an additional supplementary appropriation of $500,000 to help me further underwrite the costs that we are incurring.

COOPERATION IN CONTROL PROGRAM

Mr. Chairman, I think it is important to note that the leadership of the agricultural community, the poultry industry, USDA–APHIS and the veterinary services personnel, and our supporting State and Federal diagnostic laboratories have all been an integral part of our control efforts. I want to say that we are particularly grateful to USDA for providing us with the epidemiological staff and the field assistance. It is critical to us.

I believe that continued public and private cooperation and support is critical to the eventual success in controlling and, hopefully, eradicating this disease. We must proceed with an effort involving State, Federal, and industry staff, and we must have the ability to reassess the capabilities and roles of the varying States to protect this national poultry industry.

On January 23, 1986, I wrote to USDA Secretary John Block noting the need to determine actions and responsibilities in the event of an increased national outbreak of avian influenza. Should this occur, depopulation may no longer be economically feasible for the individual States, and the subsequent economic impact would extend beyond affected States to the national and foreign poultry products markets.

I asked Secretary Block to advise us of any contingency plans that USDA may have to provide financial assistance to the States in the event the USDA calls for widespread depopulation of infected flocks.

Mr. Chairman, the Commonwealth of Pennsylvania recognizes the financial constraints placed on USDA; nevertheless, financial assistance to affected States through the reallocation of existing resources may be necessary should this outbreak spread, in order to protect our national poultry market.

Again, I do appreciate the opportunity to testify before you today, and at the appropriate time, I will be happy to respond to questions.

Senator SPECTER. Thank you very much, Secretary Grubb.

All statements will be made a part of the record in full, but we are under some time constraints this morning. We have to conclude this hearing shortly after 11 a.m. The subcommittee would appreciate it if the statements could be summarized, because we have a long list of witnesses, and we do want to reserve some time for questions and answers.

Before going to a questioning period, I would like now to turn to my distinguished colleague from New Jersey, Senator Lautenberg.

CONGRESSIONAL WITNESS

STATEMENT OF HON. FRANK LAUTENBERG, U.S. SENATOR FROM NEW JERSEY

Senator LAUTENBERG. Thank you, Mr. Chairman, and welcome to you, gentlemen, each representing an important neighboring State of mine.

I appreciate the opportunity to join with you on this subcommittee today, Mr. Chairman, and I want to commend you for holding this hearing and getting attention focused on this threat.

New Jersey's poultry market industry makes an important contribution to the economy of our State, even though by many standards it is not that large. In 1985, it did, however, account for $29 million of my State's total income. Moreover, the State is making an effort to expand its poultry industry. Just last year, a facility worth $14 million, handling 1.2 million birds, was built in Warren County, a western county in our State. So poultry production has a role to play in the future development of New Jersey's agriculture business, and all of us here today know how serious the threat posed by avian influenza is. We know from bitter experience how quickly it can spread into a virulent and devastating epidemic.

Avian influenza, whenever it breaks out, is a menace to the national poultry industry. Once it gets going, it spreads like wildfire, that is why it is so important, in my judgment, that we make every effort to bring the recent outbreak in the Mid-Atlantic States under control as quickly as possible.

NEW JERSEY'S ROLE

My own State, New Jersey, is doing all it can with its limited resources to address the problem. So far we have been fortunate. Only one flock of 17,000 birds has had to be destroyed. Three others, however, are in quarantine, and others may be identified in the near future.

New Jersey must have a pivotal role in the eradication effort because of its location. My State is central to the transportation network of the Northeast and many, if not most, of the millions of chickens that go to market in the Northeast pass through New Jersey. Any effective strategy for eradicating avian influenza will thus have to ensure that any sources of contagion in my State are promptly identified and eliminated.

DESIRED FEDERAL ROLE

In this, as in so many other areas, prompt remedial action and effective preventative measures can pay enormous dividends. The epidemic of 1983–84 cost the Federal Government alone in excess of $64 million. Over $40 million of that amount was for indemnification for growers whose flocks had to be destroyed. The remainder went for the administrative support of the all-out eradication effort that became necessary. This, of course, does not really measure the full extent of the damage inflicted on our region's poultry industry in the 1983–84 epidemic when 17 million birds had to be destroyed.

Producers simply cannot recover the full costs of losing entire flocks even if they are indemnified for their immediate market value. It takes a while to build back up after such a devastating setback.

On the basis of this experience, it should be obvious to anyone that early action is absolutely essential. Unfortunately it appears that current USDA policy puts us in sort of a catch-22 situation. Before the Department can mount a full-scale eradication effort and provide the necessary indemnification to growers, the Secretary must declare a national agricultural emergency. But under the Department's criteria, avian influenza has to reach a certain level of virulence before such an emergency can be declared.

In other words, the Department has to wait until producers have experienced the loss of a large portion of their flocks before it can take measures necessary to bring the epidemic under control.

Instead of waiting for a full-blown crisis to develop, I believe that the Department should move aggressively to establish more effective Federal/State cooperation on monitoring, testing, and eradication. I understand that the Department has begun to provide some additional assistance to the States in this area, but I believe that much more will have to be done if we are going to prevent a potential epidemic.

It is my hope, Mr. Chairman, that this hearing will provide the basis for the kind of cooperative effort between the Federal Government and the States in our region that will be necessary to bring this latest outbreak of avian flu under control.

Mr. Chairman, I can't stay with you, but certainly I will work with you in the leadership role to give our producers whatever assistance we can. The product is important in our markets, and it has a national scope as well.

Thanks again for this time, and to greet our visitors and tell them that I am sorry that I can't stay with you, but I look forward to hearing from you.

Senator SPECTER. Thank you very much, Senator Lautenberg. Thank you for your participation.

We have been joined by the distinguished Senator from Arkansas, Senator Bumpers. I will turn to Senator Bumpers for an opening statement.

CONGRESSIONAL WITNESS

STATEMENT OF HON. DALE BUMPERS, U.S. SENATOR FROM ARKANSAS

Senator BUMPERS. Mr. Chairman, I will just add my support to what the Senator from New Jersey just said, because this avian flu, while not in Arkansas, and seemingly confined for the time being to New Jersey, Pennsylvania, and Massachusetts, is such a virulent strain and is so contagious that its control must be a national priority. I especially want to emphasize what the Senator from New Jersey just said, that whenever there is any outbreak of avian influenza, the Department ought to swing into action immediately. The criteria ought to be that any time avian influenza is found anywhere, that flock ought to be depopulated.

I almost said, "herd." I had a banker once tell me that a fellow in the turkey business got too big for this little banker to handle, and the banker told him, "You need to see this new agricultural expert at the bank in Fort Smith. They just got an agricultural expert up there, and their deposits are 10 times greater than ours, and they can probably handle your account."

The turkey farmer came back that afternoon, and he said, "I saw that guy, and I don't think our new deal is going to work out." The banker said, "Why?" The farmer replied, "Because his first question was, 'How many turkeys are in your herd?' " [Laughter.]

Any time a flock is infected, we in Arkansas get terribly upset. We are by far the biggest broiler producer in the country, and we are becoming even much bigger. It is big business, and the biggest employer by far in the State of Arkansas.

I have a deep and abiding interest in how we are going to handle this, and I am anxious to hear what you gentlemen will have to say about how it should be handled.

Thank you, Mr. Chairman.

Senator SPECTER. Thank you very much, Senator Bumpers. I appreciate your participation.

I would like now to turn to the distinguished Commissioner from the New York Department of Agriculture and Markets, the Honorable Joseph Gerace.

NEW YORK DEPARTMENT OF AGRICULTURE AND MARKETS

STATEMENT OF THE HONORABLE JOSEPH GERACE, COMMISSIONER

Mr. GERACE. Thank you very much, Senator, and thanks for inviting us here to talk about this important problem.

I endorse the statement of my colleague from Pennsylvania, with the possible exception of suggesting that New York City is the Typhoid Mary of this avian flu problem. I want to point out that it is the City Market from which or to which many crates are sent from different States of which we speak, rather than the poultry industry in New York.

I do want to underscore that we endorse the recommendation of the Technical Consulting Committee of the USDA that the Secretary of Agriculture declare a national emergency. We endorse that unequivocally.

You all know the impact of this disease. Even as I talk to you today, measures to depopulate a flock on Long Island are underway, and they should be completed by the end of this week. This could be just the tip of the iceberg.

The industry in New York State would face a potential $100 million loss, so it is as important to us as it is to the other States that have been mentioned here.

I just want to tell you briefly what we have done in New York. We have communicated with our chairman of our Disaster Preparedness Commission. We are preparing for a possible implementation of any emergency procedures in that plan. We have consulted with our poultry, egg, and feed industry in the State, and we are adopting all possible industry safeguards.

We have communicated with the live poultry market in New York City, and we are requiring that they clean and disinfect shipping crates. Some have been able to substitute plastic crates to facilitate cleaning, and we will be making this requirement of cleaning an official requirement. We have already implemented procedures for additional inspections to enforce the regulation. We urge that this cleaning and disinfecting process be required in all USDA inspected poultry slaughter plants.

We urge, too, that every resource be made available to the USDA to augment State measures to control and eliminate the disease. As everyone has said to this point, no State can effectively combat the disease alone. The marketplace equation is complex, involving extensive interstate and international commerce in the movement of birds, feed and materials, and hatching eggs.

Even the New York City market is essentially an interstate market area, primarily for birds brought in from other States, and it is basically segregated from our main poultry operations which have little interchange with these markets.

In addition, the fiscal resources required really would have to be of national proportions.

Prompt and immediate action is necessary, and I know you are aware of it; otherwise, you would not be having this hearing.

I do want to make one point which was not in my statement, and that is that the price to the consumer is supersensitive to this problem, and if we don't attack it early on, the consumer is going to see a price increase in the marketplace.

Thank you very much, Senator.

Senator SPECTER. Thank you very much, Commissioner. We very much appreciate your being here and your testimony.

[The statement of Mr. Gerace follows:]

STATEMENT OF JOSEPH GERACE

I am Joseph Gerace, New York State Commissioner of Agriculture and Markets. I thank you for this opportunity to present the New York State perspective on the very serious threat of avian influenza to regional and national economies.

The Technical Consulting Committee of the U.S. Department of Agriculture has recommended that the Secretary of Agriculture declare a national emergency. I endorse the recommendation unequivocally.

This disease is devastating to poultry flocks, with its economic corollary sweeping through related industries, crossing State and regional boundaries. Avian influenza is now being confronted in Pennsylvania, Massachusetts, and New Jersey, as well as New York. Even as I address this committee, measures to depopulate a flock on Long Island are under way. The depopulation will be completed by the end of this week at an estimated cost to New York State of $50,000 in indemnities and related expenses.

Embargoes and quarantines on interstate commerce have been imposed. The effect has spread also to international commerce, affecting transport of poultry, hatching eggs, and related products. Poultry operations in my State alone face a potential $100 million loss.

Our experience in the 1983–84 avian influenza outbreak produced a contingency control plan. We have already been in frequent communication with the chairman of the Disaster Preparedness Commission, preparing for possible implementation of that plan. Through the Commission we are able to mobilize such State resources as the State Police, Department of Environmental Conservation, and Department of Transportation. All of these, we have found, are essential in mounting an effective response.

We have consulted with poultry, egg, and feed industries in our State, urging all possible industry safegurads. It has been arranged that the live poultry market in New York City clean and disinfect shipping crates. Some have been able to substitute plastic crates, facilitating cleaning. We will be making this an official requirement, and already have planned for additional inspections to enforce the regulation.

We urge that this cleaning and disinfecting process be required in all USDA-inspected poultry slaughter plants.

We urge, too, that every resource be made available to the U.S. Department of Agriculture to augment State measures to control and eliminate the disease. No State can effectively combat the disease alone. The marketplace equation is complex, involving extensive interstate and international commerce in the movement of birds, feed, materials, and hatching eggs. Even the New York City market is essentially an interstate market area primarily for birds brought in from other States. It is basically segregated from our main poultry operations, which have little interchange with these markets.

In addition, the fiscal resources required to handle such a regional or national problem must be of national proportion, particularly for large-scale depopulation efforts with related indemnities.

Prompt, effective, and immediate action is necessary to prevent the spread of avian influenza outside of the region. Declaration of a national emergency, with coordinated local, State, and Federal efforts, is action entirely consonant with the dimensions of the economic threat.

DELAWARE DEPARTMENT OF AGRICULTURE

STATEMENT OF THE HONORABLE WILLIAM B. CHANDLER, JR., SECRETARY OF AGRICULTURE, STATE OF DELAWARE

Senator SPECTER. I would like to turn now to the Honorable Bill Chandler, Secretary of the Delaware Department of Agriculture.

Senator Roth had hoped to be here, Mr. Secretary, and I know that Senator Biden would have liked to have been as well, but there are so many conflicting schedules that it is just not possible to do all the things that they want to. You may proceed.

Mr. CHANDLER. I would like to thank this committee for the opportunity to make a few comments this morning, and at the same time apologize for my raspy voice. I can assure you that it is not due to avian influenza unless the discussion of the problem would account for it.

Senator BUMPERS. Can human beings get avian influenza?

Mr. CHANDLER. No.

EFFECTS ON DELAWARE

The avian influenza outbreak that we have seen recently in a number of States in the Northeast is seen in Delaware as a threat to our poultry industry, which is indeed the backbone of our agricultural economy.

While poultry production is important throughout the State, Sussex County produces more broiler chickens and is an area that has the highest concentration of poultry of any county in the United States. There are over 160 million birds in Sussex County, and this is a county that is only 30 miles wide and 30 miles long.

Because of the seriousness of the situation in surrounding States, I have issued an executive order concerning measures to be taken to limit the spread of the disease. Poultry fairs, shows, and exhibitions are canceled until further notice. The sale of poultry at auction markets is prohibited for the next 30 days. No poultry or poultry products from infected counties in any State are permitted to be imported into Delaware.

This order also bans any live haul trucks from out of State from entering Delaware unless both the trucks and the cages or coops used to transport the live poultry have been thoroughly disinfected, and proof of this disinfection is also required from the operator.

These steps and our constant cooperation from the surrounding States, from Governor Castle, and from the Delmarva Poultry Industry, Inc., will hopefully mean that Delaware will not experience any avian influenza outbreaks. However, because the disease is so easy to spread and has been seen in a number of Northeastern States, no solution to this problem can be realized on a State level. No single State could afford to indemnify its poultry industry if a severe avian influenza outbreak occurred and depopulation on a larger scale was required.

Therefore, as this problem is a national one, I believe that the USDA should be prepared to assist States as they attempt to deal with this problem. There has to be Federal involvement in the areas of technical assistance, and especially funding. Without this assistance, this disease will spread and become completely out of control.

Thank you.

EFFECTS OF GRAMM-RUDMAN-HOLLINGS

Senator SPECTER. Thank you very much, Mr. Secretary.

Senator Mattingly asked that this question be included in the matters presented to you, gentlemen. Will the anticipated Gramm-Rudman-Hollings budget reductions jeopardize the eradication program?

I don't know that you are in as good a position to speak to it as Secretary Lett, but if you have any views on that, we would be pleased to hear them.

Why don't we reserve that question for Secretary Lett, unless somebody has something to say.

Mr. GERACE. The analysis of Gramm-Rudman made at the NASDA Board of Directors meeting indicate that almost any substantial allocation of funds not considered within the budget is going to have an impact, an adverse impact.

Senator SPECTER. On the program?

Mr. GERACE. Agriculture is taking a big chunk or making a contribution to the deficit, so the agriculture budget is quite tight.

CAUSE OF CURRENT OUTBREAK

Senator SPECTER. What is your view, Commissioner Gerace, on the source of this outbreak? Do you think avian flu emanated from New York State, and if so what might be done about it?

Mr. GERACE. First I want to make clear that it didn't emanate from the poultry industry. The references that have been made really, I think, allude to the city market where birds are brought in from other States in crates and the like, and transported. It is just as likely that the bug, if you will, the influenza, emanated from some other State. It is a city market, and I think you are familiar with that.

Senator SPECTER. Secretary Grubb, what is your source of information which would attribute the source to New York State?

As I ask this question, it is in no way to assess blame. We are not really at all interested in that. What we are interested in doing is solving the problem in the future. But to the extent that we can trace a source, we can better know how to deal with the problem.

Mr. GRUBB. I concur that the information we have is not the New York poultry industry. USDA epidemiologists have done a detailed epidemiological study of the outbreak so far, and through these contacts, I think, all but one flock can be traced back to a live truck hauler who has been dealing in an inner-city market. Through this flow chart, which the USDA has available, we can identify contact or at least crates belonging to this particular market.

STEPS TO PREVENT REOCCURRENCE

Senator SPECTER. Secretary Grubb, what would your suggestion be, looking to the future, as to how to prevent a reoccurrence?

Mr. GRUBB. I think we need strict interstate sanitation requirements. Right now, you have heard in my testimony and in Bill's testimony, that each State is starting to adopt its own sanitation requirements.

Senator SPECTER. Should those standards be promulgated by the U.S. Department of Agriculture?

Mr. GRUBB. I think, for the sake of understanding, for uniformity, I think the USDA really ought to take a look at addressing the problem of the interstate shipment because if it, indeed, is a regional problem, it is awfully difficult for each State to put in differing regulations. First of all, we have no assurance that every State is going to do it; and, second, I think that it is awfully difficult for trucking firms to understand 15 different sets of regulations compared to one set of regulations.

RESEARCH ON AVIAN FLU

Senator **Specter**. With respect to what we have learned from the 1983–84 experience, what is your evaluation of research currently being undertaken by the U.S. Department of Agriculture? Are there any preventative steps which ought to be taken, which are not now being taken?

Let's start with you on that, Secretary Chandler.

Mr. **Chandler**. Are you speaking about the amount of money that would be allocated to research?

Senator **Specter**. Yes; whether enough is being done to try to understand the problem of avian flu and to try to prevent it. Is there any new research, or any other program that ought to be undertaken?

We had hearings at the time of the last outbreak, and the subcommittee responded by providing additional resources to have such research done.

We only revisit these subjects when something occurs. The question that the subcommittee really would like to focus on is: Has enough been done?

Mr. **Chandler**. I am not sure that you could do enough. I think that perhaps the best way to answer the question is: I don't know that it is possible to do too much in the way of research, simply because in 1983, when Pennsylvania had the problem and the USDA had to declare an emergency and depopulate 200-some flocks of birds, it is my understanding that that particular outbreak and the control of it cost about $60 million.

In the State of Delaware, and in Sussex County, where our concentration of birds is something like three to four times the concentration that they have in Pennsylvania, I could visualize, if we had an outbreak of that same nature, that you could be talking three or four times $60 million. So you are talking about a $200 million bill that it would cost to handle that and control that kind of outbreak.

When you are talking about numbers of dollars in research, anything within reason in the way of research that could prevent the problem, I think would be cheap compared to what it costs once you allow it to get out of control.

Senator **Specter**. The subcommittee would be very appreciative if you gentlemen would review what has happened in the U.S. Department of Agriculture since the 1983 experience. Let this be a pending question which you may submit to the subcommittee. Take a look at what has been done, and then give us your best thinking on what more ought to be done as specifically as possible. Then this subcommittee will take a look at your responses when it deals with the budget for the coming fiscal year.

Senator Bumpers, do you have any questions of these gentlemen?

Senator **Bumpers**. Thank you, Mr. Chairman.

AVAILABILITY OF FUNDS

Gentlemen, let me ask any of you. We spent $65 million, according to the one statement, in 1983 to control that particular outbreak. If we were required to spend that amount of money again, or even more, would the funds be available under present allocation of funds to the Department?

Mr. CHANDLER. At a recent meeting, like a week ago, in College Park, with representatives of USDA in attendance, we were told that they did not have any money for that kind of program.

Senator BUMPERS. The Department told you that they didn't have any money for this program?

Mr. GRUBB. Yes; that was in a discussion a week ago, when we were stressing the need for more Federal involvement. A representative of the Department at that time did make the statement that funds were not available in the Department at this time for the program.

Senator BUMPERS. Do you have any idea what the Department is proposing to do? This is not a good question for you, but how are we going to control this if there is no money to control it?

Mr. CHANDLER. That is exactly our question.

Senator BUMPERS. The Inspection Service is highly labor intensive, and any money that the Department cuts back is going to cut personnel out. Are we going at cross purposes here?

Mr. GRUBB. I did indicate that in Pennsylvania, the USDA, in terms of personnel, epidemiology field staff is being very supportive. In fact, they have, just within the last week, given us more staff, field staff, to work with us. Even without an emergency, the USDA is working with our veterinarians and our poultry industry in terms of personnel working with us.

VIRULENCE OF VIRUS IN CURRENT OUTBREAK

Senator BUMPERS. I should address these questions to the Secretary, of course, but let me ask you one other question about the virulence of this particular strain. Is it not as virulent as the one in 1983, or do you know?

Mr. GRUBB. The information that we have is that the virus we have right now is very similar—I don't know what "very similar" is—to the strain that we had in Pennsylvania in 1983–84, and also extremely similar to the virus that was in Maryland in 1984. Where the degree of becoming highly pathogenic is, I don't know. That becomes very technical and I can't address that, sir.

Senator BUMPERS. I am going to withhold my questions until later, Mr. Chairman. Thank you.

Senator SPECTER. Thank you very much, Senator Bumpers.

Thank you very much, gentlemen. We really appreciate your being here. What we would like to do by way of followup is to get your guidance on what really ought to be done for the future; how we ought to address the issue of interstate movement. I have already made a note to write to the Secretary of Agriculture to urge there be regulations quickly promulgated at the Federal level to deal with this problem. It really ought to be done forthwith, in the course of the next few weeks, if not sooner. That is one clearcut conclusion that has already arisen.

Whatever else you can suggest in a specific way to deal with this problem will be addressed by the subcommittee. I think that the presence of the Senators here today underscores our concern. As we work through Gramm-Rudman, we still have funds to take care of priorities, and that is the thing that we have to emphasize on all problems. Where we can identify priorities, we will fund them, and I think that this is a priority.

So we will await your further information.

Mr. CHANDLER. How should the information be addressed, and to whom?

Senator SPECTER. It should be addressed to Senator Cochran as chairman of the subcommittee. If you would also send a copy to me, I would appreciate it.

PREPARED STATEMENTS

We have written statements by Arthur R. Brown, who is the Secretary of the New Jersey Department of Agriculture, and Hugh E. Binks, who is the Deputy Secretary of the Maryland Department of Agriculture. Their statements will be inserted in the record at this point.

[The prepared statements of Mr. Brown and Mr. Binks follow:]

STATEMENT OF ARTHUR R. BROWN, JR., SECRETARY, NEW JERSEY DEPARTMENT OF AGRICULTURE

Senator Specter, and members of the appropriations committee, I appreciate this opportunity to submit testimony to you on behalf of the New Jersey Department of Agriculture, and the poultry industry in New Jersey, as well as throughout the Northeast.

By this time you have heard testimony which, no doubt, has relayed the alarm that has stricken the poultry industry since this most recent onset of avian influenza.

We in the New Jersey Department of Agriculture feel that the alarm is certainly justified. This deadly poultry disease can have a disastrous impact on the meat and egg poultry industry, its related industries and on food prices to consumers.

Behind the alarm are the vivid memories of the avian influenza outbreak in 1983 and 1984.

What started out as a low virulent virus in a few chicken flocks, became a vicious, virulent killer.

More than $65 million in federal funds were used during an 11-month eradication effort. 17 million birds in 454 flocks were destroyed and tens of hundreds of staff people were assigned to the task.

The outbreak occurred in Pennsylvania, Virginia and other nearby states, affecting New Jersey, as well.

New Jersey was involved in the 1983-84 outbreak following federal emergency action and involvement in Pennsylvania. The full resources of the state Department of Agriculture were used within the limits of existing staff and budget appropriations.

The major thrust of New Jersey's actions was to develop protective measures and programs such as testing, surveillance, embargoes and others, to prevent the introduction of the disease into the state. In addition major surveillance and testing was accomplished with heavy reliance on federal resources.

Eventually, one New Jersey flock of 30,000 birds became infected and were destroyed with the owner reimbursed from federal funds. The federal government at that time was taking the lead role, providing desperately needed support services, as well as indemnities to poultry owners whose flocks were destroyed and very livelihoods threatened.

You can imagine the anguish of poultry operators throughout the Northeast when they learned last month that the virus is once again present in flocks.

On January 3 an outbreak of low pathogenicity was identified in Pennsylvania which immediately sent major ripples through the major poultry industries of Pennsylvania, Delaware, other nearby states and here in New Jersey.

Immediate action was taken by Pennsylvania to bring the disease under control with accompanying eradication efforts of infected flock disposal. All nearby states and the U.S.D.A. were alerted to this outbreak.

This deadly poultry disease, which was once again starting out as it had just two short years ago with low virulence, could not be allowed to skyrocket to the proportions it had in the past.

Immediately following reports of the virus in other states we began alerting our poultry industry, strongly urging they step up the preventive measures that were so vital to stopping the spread of the disease.

As you know, the virus is highly contagious and can be carried on trucks, feed, equipment such as poultry crates, or on the clothing of visitors.

At this time New Jersey has three confirmed cases of avian flu, numbering some 18,200 birds.

The department quarantined the farms once we became suspicious that the virus might be present. We have closed down poultry markets, disposed of infected birds and pursued other avenues to control the disease.

A major part of this effort has been informing and educating the poultry industry on the disease and methods to prevent its introduction and spread.

At this point, the state Department of Agriculture has overextended its resources. We are applying all possible resources to this problem, at the sacrifice of other programs. That is the course we have been forced to take, due to the conditions we are facing. However, we feel strongly that this is not a sound disease control practice.

One major difference exists in the control program this time around. To date, the U.S.D.A., based on its criteria, has not declared an emergency situation, which would channel major added resources to the control and eradication efforts. Since the disease, to date, continues at a low (similar to its beginning in the 1983-84 outbreak) rather than high virulent stage, the U.S.D.A. has taken a low, monitoring profile, leaving it up to the states to try to combat this disease.

Epidemiologic efforts to date point out that the avian flu infections, found in 9-10 Pennsylvania flocks, 3 New Jersey flocks, 2 Massachusetts flocks, and 1 New York flock may, to a large extent, be traced to transportation movement among these locations and into several markets in New Jersey and New York.

This brings me to a critical point in looking at the picture now.

New Jersey's poultry industry of egg and meat comes to about $29 million, with about 98 percent of our flocks having fewer than 3,200 birds.

Yet, it has strong inter-relationship with surrounding states, and their billion dollar industry for the following reasons:

1. South Jersey has two processing plants where old layers from the entire Northeastern region are brought for slaughter.

2. Feed suppliers from nearby states deliver poultry feed into New Jersey.

3. Eggs and live poultry are transported and marketed within and between nearby states.

The obvious common denominator in all of those is transportation.

The importance of this is borne out by the investigation in the present outbreak in which all evidence points to trucks and equipment causing the spread of infection.

While, our industry is small compared to other states, the fact that so much poultry is routed into and through New Jersey, and that transportation is one of the most common methods of spreading the virus, makes this difficult to deal with from a disease prevention perspective.

In addition to major production and marketing locations and channels, New Jersey has an active "backyard" and "direct marketing" of live bird and egg operations that are most difficult to identify and locate, let alone monitor, test and control. We have considerable concern about the movement of the disease not only through the large transportation channels, but also through these "backyard" operations.

What is apparent is that there must be a regional approach to the measures that are taken to eradicate this disease. We see the following steps as critical to efforts to beat this virus:

1. There must be greater U.S.D.A. involvement in broadened testing and surveillance programs for avian influenza which encompasses farms, markets, transportation, etc. The state is limited in its staff and resources it has available to accomplish the requirements of a sound disease prevention program. The control of interstate traffic must be a federal responsibility.

Based on the current status of the disease, New Jersey needs to have our staff matched with federal staff to ensure eradication.

2. There must be a mechanism for U.S.D.A. to change its criteria for an emergency when a subsequent disease outbreak occurs.

3. The state, with U.S.D.A. support, must be able to move promptly to eradicate the disease when the disease is found.

Federal funding for indemnities is a priority for efforts to eradicate this virus. Only a limited amount of state funds are available to indemnify owners.

What happens when that is not available? Do we take flocks without compensating the owners? Or, do we violate the standards set by surrounding states who invest a great deal to eradicate the disease?

4. Longer term, U.S.D.A. research is required, including an attempt to develop a vaccine, preferably a subunit, which will provide protection without causing interfering antibodies or disease spread which is the problem with a live virus vaccine.

In summary, we can't forget what happened such a short time ago in 1983 and 1984. Does the federal government wish to see the crisis situation that was at hand at that time? Do they want to wait to take action when the situation has become so critical that they are required to pay hundreds of millions of dollars to control the disease?

We think not. Preventing the spread of the disease, before it reaches those levels, is the wisest course to follow. We, in the states, are working to do that, but we desperately need the full support and resources of the federal government, to guide a regional effort.

STATEMENT OF HUGH E. BINKS, DEPUTY SECRETARY, MARYLAND DEPARTMENT OF AGRICULTURE

When Lord Baltimore landed in Southern Maryland in 1634 to establish St Mary's City, his colonists found the land to be good for supplying their own needs and producing a marketable crop called tobacco. As more and more early settlers came, they spread across the State to begin farming on land that tended toward producing crops other than tobacco. During the Revolutionary War, Maryland's Agriculture was diversified enough to supply a steady flow of foodstuffs to Washington's troops, with some shipped to French allies. Maryland was at that time often referred to as "The Breadbasket of the Revolution."

Diversification of Maryland Agriculture, and its prominence, continues to this day. In spite of the rampaging forces of development stemming from the increasing demands and insatiable appetite of the Federal city of Washington, D.C., and the city of Baltimore to make the whole State into nothing but a piece of the megalopolis stretching from New York to Boston, Agriculture - agriculture, ladies & gentlemen, continues to be the No.1 industry in Maryland. The people that live in all those houses being built and work in the government buildings, research laboratories, and factories want and need to eat in order to perform and survive. Maryland's primary agricultural production, in spite of the shamefully depressed prices, amounts to some one-and-a-quarter billion dollars a year, and it contributes its fair share to the upkeep of this Government.

The cornerstone of Maryland's agricultural economy and, thus, significant to the economy of the State, is the poultry industry. Poultry accounts for a third of our agricultural income, over $400 million annually, and provides jobs for thousands of people. We produce over 1.1 billion pounds of broilers. We produce approximately 850 million table eggs, for a value of close to $60 million.

Do you wonder why we are concerned with a threatened outbreak of Avian Influenza; do you wonder why we are concerned with the inertia of the Federal Government in handling the outbreak? We simply must keep the disease out; if it gets into our State as a result of insufficient controls in interstate commerce, we must be ready, quickly, to control it. To let a disease such as Avian Influenza get out of control in Maryland would bring about an absolute collapse of the agricultural economy in our State and would have devastating repercussions on the economy of the whole State. Not just the chicken farmers would suffer, but rapidly the corn and soybean industry, huge chunks of the labor force, the bankers, the truckers, the storekeepers, not just in Maryland, but from Virginia to Boston would quickly and enduringly be adversely affected.

You and I cannot let that happen. We have a legal and moral obligation to prevent it if possible. Each of the states represented here has an obligation to each other. They are fulfilling that obligation. They have pledged, and are spending, unbudgeted resources to control this disease. But, they need the resources, the expertise, the authority, the research capability, the unqualified support of USDA in the effort.

I do not think, nor does any other knowledgeable person, that Avian Influenza can be eradicated. There is a reservoir of the virus in wild waterfowl, and it will always be a threat to domestic poultry. Maryland is always a vulnerable target, with the heavy concentrations of overwintering waterfowl which are encouraged and protected by the Federal Fish and Wildlife Service.

What, then, should be the role of USDA in Avian Influenza. Let me give you my recommendations. Let me divide them into short-term immediate and long-term future policy.

For the short-term immediate policy:

A. Because the current outbreak involving several states needs to be brought under control quickly to minimize both the cost of the effort and the potential for disaster to the industry;

B. Because the presence of Avian Influenza Virus H_5N_2 in our flocks effectively eliminates export potential which is so badly needed for the national economy;

C. Because USDA's currently published recommendations emanating from its own Avian Influenza Technical Advisory Committee mandate depopulation of flocks infected with the H_5N_2 Virus;

D. Because the presently known cases in Pennsylvania, Maryland, and New Jersey all originated outside the borders of those states;

USDA should

1. Expand its efforts to provide leadership, technical assistance, manpower, and whatever other help is needed to bring the current outbreak under control quickly.

2. Share, and I emphasize share, the cost of indemnity for flocks destroyed. I do not believe USDA should be responsible for all indemnities. Industry, the states, and the Federal Government must all share the cost of depopulation. We must never make depopulation profitable enough that it can substitute for careless management.

For the long-term future policy, we believe USDA should do at least these things:

1. Develop alternate, economically viable control methods. This must be done in cooperation with the various segments of the industry, which must provide its share of the effort. We simply must have different strategies; there are vast differences in disease control strategies for turkeys, egg-producing flocks, broilers, and semi-domestic birds.
2. Broaden research activities, either internally or through the grant procedure. We need to know what risks may be involved in the salvage of exposed or infected flocks and how to keep them to a minimum; we need some wide-scale testing of available vaccines in the several categories of poultry, i.e., turkeys, egg-producing flocks, broilers, to assess their value in the control of potential outbreaks.
3. Analyze movement patterns of live poultry and those poultry products capable of transmitting Avian Influenza and other diseases and recommend or institute control strategies over those areas most likely to be disease threats.
4. Speed up the procedures for testing and approval of new biological products.

I want to stress, again, our belief that all these things must be a cooperative effort. We do not expect or hope that we can run to the Federal Government and ask for the resolution of every problem that besets us. We fully recognize the need for reduced Federal spending and applaud the Congress and the President in their efforts to balance the budget. After all, most state agencies and governments have been doing this for years. All we ask is that the Federal Government provide its fair share in the control efforts of Avian Influenza and other poultry diseases. The states and the industry must do the same. If we all do not share in the responsibility, this dynamic agricultural enterprise will eventually be devastated and the American public will suffer accordingly.

INTRODUCTION OF PANEL FROM PENNSYLVANIA

Senator BUMPERS. Mr. Chairman, while we are changing panels here, and I assume that we are getting ready to change panels——

Senator SPECTER. Yes; we will now thank this panel and call the next panel, and then I will yield to you, Senator Bumpers.

Mr. Allen Wenger, Pennsylvania Poultry Federation, member of the Avian Influenza Committee; Mr. Ronald Shaffer of the Pennsylvania State Grange; and Mr. Robert Weaver of the Pennsylvania Farmers Association and who is a contract grower.

EFFECTS OF GRAMM-RUDMAN-HOLLINGS

Senator BUMPERS. I was just going to make an observation about Gramm-Rudman. I voted for it, and I hope I don't have to apologize for that vote. I voted for it on the assumption that Congress would do its duty, and the President would do his duty, in cutting the deficit in a sensible way and not let a government computer do it for us.

On March 1 of this year, if we do nothing, the government computer will cut everybody across the board to the tune of $11.7 billion. It would be sheer idiocy for Congress in 1986 and 1987 to allow the triggering mechanism to go into effect and cut a program like this, not only when it doesn't have enough money to begin, but to just go ahead and cut it as though we didn't have a crisis on our hands. It would be the height of irresponsibility to allow the Department's APHIS Program to be cut back in the face of what is obviously a serious potential crisis.

I just wanted to say this for the record. This is one of the reasons that Congress must not sit around saying, "Well, let's let the American people get a taste of this. Let's don't do anything. Let's let them find out how tough Gramm-Rudman is really going to be."

It is going to be plenty tough if we don't exercise intelligence and responsibility. It is going to be highly irresponsible and even tougher if we allow this to be done by computer and allow programs like this to get cut like everything else even when we have a crisis on our hands.

Thank you, Mr. Chairman.

Senator SPECTER. Thank you very much, Senator Bumpers.

Welcome, gentlemen. We very much appreciate your being with us today. Let us turn first to Mr. Allen Wenger of the Pennsylvania Poultry Federation.

PENNSYLVANIA POULTRY FEDERATION

STATEMENT OF ALLEN WENGER, PENNSYLVANIA POULTRY FEDERATION, AND MEMBER OF THE AVIAN INFLUENZA COMMITTEE

Mr. WENGER. Thank you very much and good morning, members of the Appropriations Committee. Thank you for the opportunity to speak with you this morning.

Senator SPECTER. Let me emphasize again that all statements will be made a part of the record in full, and to the extent that they can be summarized, the subcommittee would appreciate it.

Mr. WENGER. Certainly. This is a summarized statement.

My name is Allen Wenger, and I am here today on behalf of the Pennsylvania Poultry Federation. I am also an executive officer with Wenger's Feed Mill, which is a family-owned company located in Lancaster County, PA, involved in the production of poultry and eggs.

POTENTIAL DAMAGE OF CURRENT OUTBREAK

Today, it appears that the industry is sitting on a powder keg of far greater proportions than the one that blew up in 1983, which resulted in the destruction of 16 million birds. The disease has been identified early, which has been a great advantage; however, at this point in time, the originating source of the virus has not been positively identified.

Although early detection has been an advantage, that edge is rapidly being lost as the disease appears to be gaining ground as evidenced by the fact that early identification found only the isolated virus evident in the blood samples—termed "sero negative"—whereas now the infected blood samples are showing sero positive, meaning that the virus has been in the blood for a long enough period of time to create antibodies. The fuse on that powder keg is running short. Our time is running out.

Each infected State has organized an effort of its own. Some of these efforts have been very local in nature and have had to rely on a simple "best judgment" effort, without the benefit of the experience that we accumulated 3 years ago. Part-time labor, unskilled hands and lack of documentation run a greater risk of spreading the contamination in spite of its well-intended efforts to contain the virus.

No single standard of procedure has been established for sanitation, depopulation, or ultimate cleanup of infected premises. Individual efforts are failing to stop the spread of this disease, leading to duplication and confusion between States. Our resources and our most precious commodity—time—are being squandered. That, very briefly, brings us to why we are here.

Our accomplishments to date have been minimal, and continuing on our separate paths in this battle is leading to an uncontrollable situation. The problem is a Northeastern one, and one that affects the interstate economics of the entire region. It is imperative that the U.S. Department of Agriculture and its related agencies intervene immediately to lend its office to the immediate eradication of this dreaded disease.

It is our opinion, viewing the nature of the threat, that there is still an opportunity to stop this outbreak and clean up the existing reservoir of infection within 30 days if we act now. The fuse is burning short. In light of the awesome threat to the poultry industry, we need immediate action.

Thank you.

Senator SPECTER. Thank you very much, Mr. Wenger.

[The statement of Mr. Wenger follows:]

STATEMENT OF ALLEN WENGER

Good morning. Members of the Agriculture Appropriations Subcommittee, thank you for the opportunity to speak with you this morning. My name is Allen Wenger and I am here today on behalf of the Pennsylvania Poultry Federation. I am also an executive officer of Wengers Feed Mill, which is a family-owned company located in Lancaster County, PA, involved in the production of poultry and eggs.

The federation is the primary trade organization representing the poultry industry in Pennsylvania. We have approximately 300 members involved in all aspects of the poultry industry, including production of broilers, commercial and hatching eggs, specialty birds, and the raising of turkeys. We also have associate members from allied industries, such as feed manufacturers, hatcheries, egg, broiler, and turkey processors. Our poultry industry contributes more than $1 billion a year to the Pennsuylvania economy.

We are here today to present our views on a subject that is of utmost importance to our members, to the State of Pennsylvania, and to the national poultry industry. I am, of course, speaking of the renewed outbreak of avian influenza.

Today, it appears that the industry is sitting on a powder keg of far greater proportions than the one that blew up in 1983 which resulted in the destruction of 16 million fowl. The disease has been identified early, which is a great advantage; however, at this point in time the originating source of the virus has not been identified. Although early detection has been a real advantage, that edge is rapidly being lost as the disease appears to be gaining ground as evidenced by the fact that early identification found only the isolated virus evident in the blood samples—termed sero negative—whereas, now the infected blood samples are showing sero positive meaning that the virus has been in the blood for a long enough period of time to create antibodies. The fuse on the powder keg is burning and time is running out.

Each infected State has organized an effort of its own. Some of these efforts have been very local in nature, and have had to rely on simple, good judgment without the benefit of the experience that we accumulated 3 years ago. Part-time labor, unskilled hands, and lack of documentation run a great risk of spreading the contamination in spite of well-intended efforts to contain the virus.

No single standard of procedure has been established for sanitation, depopulation, or ultimate cleanup of the infected premises. The individual efforts are failing to stop the spread of this disease and are leading to duplication and confusion between States. Our resources and our most precious commodity, time, are being squandered.

That, very briefly, brings us to why we are here. Our accomplishments to date have been minimal, and continuing on our separate paths in this battle is leading to an uncontrollable situation. The problem is a Northeastern one, and one that effects the interstate economics of the entire region. It is imperative that the U.S. Department of Agriculture and its related agencies intervene immediately to lend its office to the immediate eradication of this dreaded disease.

It is our opinion, viewing the nature of the threat, there is still an opportunity to stop this outbreak and clean up the existing reservoir of infection within 30 days, if we act now. Acting now, in light of this awesome threat to the poultry industry, means immediately! The fuse burns short, we must be responsible NOW!

PENNSYLVANIA STATE GRANGE

STATEMENT OF RONALD E. SHAFFER, ASSISTANT TO THE MASTER, PENNSYLVANIA STATE GRANGE

Senator **SPECTER**. I would like to now turn to Mr. Ronald Shaffer from the Pennsylvania State Grange.

Mr. **SHAFFER**. Good morning. Thank you for the opportunity to address this committee.

I am Ronald Shaffer, the assistant to the Master of the Pennsylvania State Grange. As a representative of the Pennsylvania State Grange, Pennsylvania's largest rural-farm organization, with over 42,000 members, I would like to address our concerns pertaining to this latest outbreak of avian influenza.

The unmeasurable impact it may again have on family poultry farmers and their markets in the Northeast cannot be assessed in monetary terms.

CAUSE OF CURRENT OUTBREAK

This outbreak is a multistate problem, which did not originate in Pennsylvania. In fact, if it had not been for the ongoing surveillance and reporting program of the Pennsylvania Department of Agriculture, and the cooperation of poultrymen in Pennsylvania, this disease could conceivably have gone undetected until it became highly pathogenic and spread into who knows how many States.

We believe the Secretary of Agriculture for Pennsylvania, Richard Grubb, acted with prudence to handle a very explosive disease. We can expect no less from the USDA. Since it is a regional problem, USDA must help share the cost of its eradication.

We understand that one company's coops and trucks are tied to almost all of the flocks found to have avian influenza in this current outbreak. USDA had the opportunity to request regulation on the washing and disinfecting of trucks and coops moving in interstate commerce during the last outbreak of avian influenza. They chose not to, with the statement that this part of the industry would voluntarily police itself.

Had the washing and disinfecting of trucks, coops, and crates been made mandatory on interstate commerce of poultry at that time, we would not be here today with this problem. Therefore, we feel that the USDA has the responsibility to supply some type of funding to aid the Pennsylvania poultry farmers without declaring an extraordinary emergency.

STEPS TO PREVENT FURTHER DAMAGE

We do not want the scope of regional quarantine unless it is absolutely necessary to control avian influenza, which would continue to escalate rapidly beyond local control and that would further hurt the Pennsylvania industry at this time. There must be a way that Federal funds can be triggered to help without declaring an extraordinary emergency.

The integrity of the Pennsylvania Department of Agriculture and the integrity of the Pennsylvania poultry industry averted a widespread epidemic. With this in mind, you cannot expect Pennsylvania, Pennsylvania's poultry farmers, and Pennsylvania's industry to foot the bill for something that could have been avoided if regulations would have been in place in interstate commerce for trucks and coops.

Pennsylvania is now paying the penalty for the laxity of other States in regards to avian influenza being a reportable disease, and not testing for it. The same is true at the Federal level. All avian influenza should be a reportable disease regardless of its virulence.

Trucks, coops, and crates involved in interstate commerce for the transport of poultry need Federal mandatory regulations on cleanup and disinfecting with some teeth in it for noncompliance.

We would like to explore the possible formulation of a fund to loan Federal money at a low interest rate to farmers who were hit by avian influenza. In some cases, farmers hit by avian influenza in the former outbreak found credit dry up when additional loans were requested to restock. We cannot allow Pennsylvania's farmers to go out of business to protect the national interest when the disease came from another State because of lax sanitary practices used in interstate trucking.

The State of Pennsylvania, Pennsylvania family poultry farmers, and Pennsylvania's industry cannot carry the complete financial burden for the eradication and cleanup. The Federal Government must come forward with funding to aid not only Pennsylvania, but the other States fighting this disease. In addition, some type of Federal testing program should be started to find out the prevalence of this disease nationally.

I know the problems and frustrations farmers are experiencing in coping with avian influenza, as well as the extraordinary precautions that are taken to try to avoid it. Having battled this disease in two different flocks of 80,000 layers in the first outbreak, I can personally say that this is a disease that we need to take every prudent precaution to prevent nationally.

While doing this, we also need to be careful we do not put the family poultry farmer out of business because of regulations that do not allow Federal funds to assist him when it strikes.

The Pennsylvania State Grange would support some type of Federal funds for indemnity, aid in cleanup, and logistic support for the States involved without a declared extraordinary emergency.

We would like also, at this time, to enter a statement by Mr. Charles Brooks, a Grange member, who is an independent egg producer, pertaining to what happened to him in the last epidemic.

Senator SPECTER. It will be admitted as part of the record.

[The submitted statement of Mr. Brooks follows:]

STATEMENT OF CHARLES BROOKS, INDEPENDENT EGG PRODUCER

I am Charles Brooks of Bainbridge, PA.

In 1983, we were independent egg producers. Avian influenza was reported in Lancaster County, PA, in April of that year.

On October 26, 1983, our flock totaled 98,170 birds. On that day, we noticed an increase in mortality and a drop in egg production. By the 28th, the mortality was in the thousands of birds. By the 31st, we had lost over 40,000 birds.

We had 12 men working to remove the dead birds which were hauled in dump trucks to a rendering plant located about three-quarters of a mile from our farm. These birds were bank-financed, and we discussed the losses with the bank. It was decided to move the rest of our flock to slaughter to cut our loss.

On the evening of November 2, 1983, I had a phone call from a State Department of Agriculture official, Mr. Max Van Buskirk, whom I was not acquainted with. He told me he had heard we were losing chickens and asked what we were doing with the dead birds and what we intended to do with the balance of the flock. I told him we had made arrangements to move the balance of the flock to slaughter the next day. He told me that we could not do so and that we would be quarantined.

The next morning, I applied for a State permit to move birds, and it was granted. When I got back to the farm, several State and Federal agriculture officials were on the farm, and the quarantine was posted. However, the permit to move birds was not rescinded, and about 57,000 were sent to slaughter. My flock was valued at over $300,000 when avian influenza struck.

For the birds that went to slaughter, we received about $30,000, and, just about 6 months later, we were paid $83,646 by the State for birds lost on the farm. During that 6 months, we had the regular fixed costs of the operation but no income. Our loss in birds and income and extra expenses is over $600,000. We are still paying interest on those dead birds.

We have been able to pay the interest on the birds and the poultry operation since the loss by using nearly all savings and off-the-farm income. We have been unable to make a principal payment, and the bank wants us to sell off building lots. We are in the process of subdividing lots at this time.

It has been very difficult to keep things going. Our maintenance costs are higher than usual, mostly because the equipment was soaked with water and scrubbed in the middle of the winter and left set idle for 6 months.

If we do not receive the compensation that all others in positions similar to ours received, I feel sure it will only be a matter of time until our farm and property will be lost—a lifetime of effort gone.

To the best of my knowledge, there is no insurance available for the risk of avian influenza in chickens. Also, to date, there is no vaccination permitted for avian influenza in chickens. Thus, the independent producer is at great risk when faced with avian influenza. Of course, a contract producer faces loss of income when avian influenza strikes.

As you can see, the independent egg producer suffers great financial loss when avian influenza strikes. It would seem like a good idea to have a Federal and State program in effect so action is taken before this loss occurs. Thank you.

Congressional Witnesses

STATEMENT OF HON. WILLIAM V. ROTH, JR., U.S. SENATOR FROM DELAWARE

Senator Specter. We have been joined by the distinguished Senator from Delaware, Senator Roth. Senator Roth, we had the first panel, which included Secretary Chandler, and I noted at that time your having communicated to me that you wanted to be here to introduce him. I said that I knew you had conflicting commitments, and would have been here, could you have been. We are delighted to recognize you now. If there is any statement which you wish to make, we will see to it that it is inserted as part of the record.

Senator Roth. Thank you, Senator Specter. I want to congratulate you for holding these hearings. I regret that the fact that I had to appear before the Rules Committee for purposes of a budget for Governmental Affairs prevented me from being here, because I don't know of any matter of more importance at this time than your discussions today in the subcommittee.

EFFECTS ON DELAWARE

I might say, Mr. Chairman, that we in Delaware and in Pennsylvania are faced with the possibility of a crisis of catastrophic proportions if avian influenza is not contained and eradicated immediately. My County of Sussex is the center, as I am sure you well know, of one of the country's largest poultry producing regions. It, in fact, raises more broilers than any other county in the Nation.

Many family farms have been able to survive the current hard time in agriculture only because of the dependable cash income that they receive as growers for a productive poultry industry. Thousands of our citizens are employed in processing plants, and grain farmers, along with other suppliers, depend on their ability to supply millions of dollars of product.

In Delaware there are several groups of people who are working hard to ensure that avian influenza does not spread onto Delmarva, and are supporting efforts to block the spread of this disease generally. I believe their efforts demonstrate what is needed. They effectively coordinate work of industry, the universities, as well as State and Federal governments.

I am here to urge, Mr. Chairman, that we all work together. Every level of government has to be concerned about the potential implications of an avian influenza epidemic for our farm communities and for our State communities in total.

I want to apologize to my good friend and colleague, Bill Chandler, the Secretary of Agriculture for our State, an old friend of mine, who I know was able to provide some very helpful information. I thank you for the opportunity to be here. I apologize to the gentleman here for interrupting his testimony. Thank you very much.

Senator SPECTER. Thank you very much, Senator Roth. We appreciate your taking the time to be here and to lend your weight to this issue, and your very forceful comments.

I would like now to turn to another member of the panel, Mr. Robert Weaver of the Pennsylvania Farmers Association. Mr. Weaver is a contract grower.

Mr. WEAVER. Mr. Chairman, good morning.

My name is Robert Weaver. I am here representing the Pennsylvania Farmers Association, the State's largest general farm organization.

Senator SPECTER. Mr. Weaver, you have just begun your statement, so I regret to interrupt you. However, we have just been joined by Senator Heinz. I wonder if you would mind deferring until Senator Heinz makes a statement.

Senator BUMPERS. Do I have any say so over this? [Laughter.]

Senator SPECTER. No; on reflection, we will let you extend your remarks if you care to do so, Senator Bumpers.

Senator Heinz, we welcome you here.

Mr. Weaver, I appreciate your allowing Senator Heinz to proceed at this time. He has conflicting commitments on a variety of committees, and I know that he is on his way somewhere else. We will call on the distinguished Senator at this time.

STATEMENT OF HON. JOHN HEINZ, U.S. SENATOR FROM PENNSYLVANIA

Senator HEINZ. Mr. Chairman, first, thank you very much, I will be very brief.

Mr. Weaver, I thank you for your courtesy. I apologize for being a few minutes late.

I do have a statement that I would like to put in the record.

Senator SPECTER. It will be admitted without objection.

Senator HEINZ. I simply want to say that I am concerned about the outbreak in Pennsylvania, in part because five States have already decided to put restrictions on us. I want to be sure that the source of the contamination is located. There is some information that it may be coming from out of State, perhaps from New York.

EXPECTATIONS OF USDA'S ROLE

I want also to see that the U.S. Department of Agriculture stands behind us in Pennsylvania if the outbreak, which so far is serious but minimal in terms of the number of affected producers, worsens. I want to see that we have the backup we need from USDA to help our State should it be necessary—and we all hope it won't—to go further with the depopulation of infected flocks.

I think Senator Specter, in particular, is to be commended for such prompt action on this. We want to be sure we are well ahead of any curve, not behind it. In 1983, everybody got behind the curve, and we saw the near catastrophic effects that it had generally and for many of our poultry raisers, farmers, and producers in Pennsylvania, and it, in fact, was catastrophic.

Senator Specter, I thank you, and I commend you. I wanted to say to our witnesses, thank you very much for allowing me to make this brief appearance. I have to attend my other hearings. I am not a member of this committee, but I can't think of a better one to be a member of this morning.

Senator SPECTER. Thank you very much for joining us, Senator Heinz, and for your support of this important program, and your support generally on all the matters which affect agriculture, especially Pennsylvania farming interests.

[The statement of Senator Heinz follows:]

STATEMENT OF SENATOR JOHN HEINZ

Good morning. I appreciate the opportunity to be here today for this important hearing on avian influenza. First let me commend my colleague from Pennsylvania, Senator Specter, for holding this hearing. I believe that it is especially important that we act now to address the outbreak because I remember well the 1983 epidemic of avian influenza and the havoc it wreaked on Pennsylvania poultry farmers. Fortunately, in that instance, we were able to obtain financial assistance from the U.S. Department of Agriculture. I only hope that the hearing today will help us to address and contain the current outbreak at an earlier stage than we did in that instance.

I am going to speak very briefly this morning in order to allow the maximum time for us to receive testimony and ask questions of the excellent panel of witnesses assembled. I just want to say first, that I am extremely concerned about the recent outbreak of avian influenza in Pennsylvania, and the impact it has had on our poultry industry, and I want to say at the outset that I am prepared to do everything within my power to help ensure that at the Federal level, we can help control the outbreak and provide relief to farmers if that becomes necessary. I have already written Secretary Block, advising him of my concerns and asking his Department to stand ready to provide further assistance should it be necessary.

I just want to take a few minutes to discuss the widespread impact that avian influenza could have on the economy of Pennsylvania. To begin with, this disease has already resulted in the destruction of 225,000 birds. Of greater concern, however, is the fact that Pennsylvania poultry products are now being restricted in five States. While I can certainly understand the reluctance of other States to expose themselves to avian influenza, I think that these restrictions are a sober warning of the severe impact that the influenza outbreak could have on our agricultural economy. I hardly need to remind those assembled before us that agriculture is Pennsylvania's largest industry, generating approximately $3 billion per year in total sales, and that poultry is our second largest agricultural product, accounting for $450 million of this total.

Consequently, this influenza outbreak is of great concern to me. I know that the State of Pennsylvania and its neighboring States are doing all that they can to handle the outbreak at the State level. In fact, the best news of all would be if the outbreak remained sufficiently small that we at the Federal level did not have to intervene further. This hearing will undoubtedly serve the important purpose of answering questions about the outbreak—how widespread it may become, how it was caused, and most of all, what we can do to help control the outbreak and to mitigate its effects on farmers in Pennsylvania and other Northeastern States. I look forward to hearing from our witnesses. Thank you, Mr. Chairman.

PENNSYLVANIA FARMERS ASSOCIATION

STATEMENT OF ROBERT WEAVER, MEMBER, PENNSYLVANIA FARMERS ASSOCIATION, AND CONTRACT GROWER

Senator SPECTER. Mr. Weaver, we apologize to you for the interruption, and we now ask you to resume your statement.

Mr. WEAVER. I am here representing the Pennsylvania Farmers Association, the State's largest general farm organization. PFA is affiliated with the American Farm Bureau Federation. On behalf of our association, I would like to thank you for the opportunity to express to you our views relative to the current outbreak of avian influenza in Pennsylvania and the northeast United States.

In mid-January, it became apparent that Pennsylvania poultry farmers were facing an outbreak of a nonpathogenic form of avian influenza. In addition, there have been confirmed cases of avian influenza in Massachusetts, New Jersey, and Long Island, NY.

DIFFERENCES FROM 1983–84 OUTBREAK

As we consider a course of action, we must remember four differences from the last outbreak.

First, due to swift action by the Pennsylvania Department of Agriculture, and with the assistance of the USDA and the poultry industry, we have been able to identify a probable source of contamination.

Second, the epidemiologists are reasonably certain that this is a recent infection and, therefore, has not widely circulated through the industry.

Third, the fact that many of the flocks depopulated were serologically negative, they did not have time to develop antibodies, but the virus was present in the flock, and it proves we are only a few days behind the virus, not weeks or months as in the 1983–84 outbreak.

Fourth, regulatory officials and the poultry industry have a great deal of experience managing and eradicating this disease. We do not have to repeat our previous mistakes.

Because of these four differences, we believe there is an excellent chance to eradicate the virus quickly.

QUARANTINE PROCEDURES

We support the Pennsylvania Department of Agriculture's current policy of placing and maintaining premise quarantine on all farms where serologically positive or suspicious flocks are found until the birds are destroyed or proven negative. However, we oppose any efforts by USDA to declare this outbreak as an emergency situation at this time and thereby placing an area quarantine on Pennsylvania or any large portions thereof.

An area quarantine of Pennsylvania is unjustifiable at this time. Information and data currently available do not indicate the need for an area quarantine, provided premise quarantines are enforced. Quarantining Pennsylvania would place a severe and undue financial hardship on the unaffected portion of Pennsylvania's poultry industry.

We encourage USDA to continue to provide any available support personnel to assist in the eradication of avian influenza in Pennsylvania and other Northeast States.

In addition, USDA should stand ready to provide a full complement of personnel to implement and manage a full area quarantine of Pennsylvania and other affected Northeast States.

Thank you for the opportunity to appear before you today.

[The statement of Mr. Weaver follows:]

STATEMENT OF ROBERT WEAVER

Good morning. My name is Robert Weaver. I am here representing the Pennsylvania Farmers' Association, the State's largest general farm organization with over 23,400 farm family members. The Pennsylvania Farmers' Association is affiliated with the American Farm Bureau Federation, the world's largest general farm organization with over 3.3 million farm family members. On behalf of our association, I would like to thank you for the opportunity to express to you our views relative to the current outbreak of avian influenza in Pennsylvania and the Northeast United States.

In mid-January it became apparent that Pennsylvania poultry farmers were facing an outbreak of a nonpathogenic form of avian influenza. To date, 233,000 birds from seven flocks in four Pennsylvania counties have been depopulated. In addition, there have been confirmed cases of avian influenza in Massachusetts, New Jersey, and Long Island, NY.

Past experience has taught us that any outbreak of avian influenza must be taken very seriously. However, as we develop a plan to deal with the current avian influenza outbreak we must consider four important differences between this outbreak and the 1983–84 outbreak in Pennsylvania when nearly 16 million birds were slaughtered.

First, due to swift action by the Pennsylvania Department of Agriculture, and with assistance from the USDA and the poultry industry, we have been able to identify a probable source of contamination, a New York poultry trucking firm. Agricultural officials are currently tracing the past routes of this firm and testing those farms which had possible exposure.

Second, epidemiologists are reasonably certain this is a recent infection and, therefore, has not widely circulated through the industry.

Third, the fact that many of the flocks depopulated were serologically negative—they did not have time to develop antibodies—but the virus was present in the flocks, proves we are only a few days behind the virus, not weeks or months as in the 1983–84 outbreak.

And fourth, regulatory officials and the poultry industry have a great deal of experience managing and eradicating this disease. We do not have to repeat our previous mistakes.

Because of these four differences, we believe there is an excellent chance to eradicate the virus quickly.

We support the Pennsylvania Department of Agriculture's current policy of placing and maintaining premise quarantines on all farms where serologically positive or suspicious flocks are found until the birds are destroyed or proven negative.

We thank the USDA for promptly providing the seven epidemiologists and veterinarians recently assigned to work in Pennsylvania. We feel USDA's technical assistance and personnel are needed to quickly eradicate this current outbreak in Pennsylvania.

However, we oppose any efforts by USDA to declare this outbreak as an "emergency situation" at this time and thereby placing an area quarantine on Pennsylvania, or any large portion thereof.

An area quarantine of Pennsylvania is unjustifiable at this time. Information and data currently available do not indicate the need for an area quarantine, provided premise quarantines are enforced. Quarantining Pennsylvania would place a severe and undue financial hardship on the unaffected portion of Pennsylvania's poultry industry.

We encourage USDA to continue to provide any available support personnel to assist in the eradication of avian influenza in Pennsylvania and other Northeast States.

In addition, USDA should stand ready to provide a full complement of personnel to implement and manage a full area quarantine of Pennsylvania and other affected Northeast States.

Thank you for the opportunity to appear before you today.

BENEFIT OF TESTIMONY

Senator SPECTER. Thank you very much, Mr. Weaver.

Gentlemen, I want you to know that your appearance here is very important. I really need the input from the farm men and women who are in the field on this kind of an operation, to give us your insights on what is going on. You have traveled a long distance, and we do not spend as much time as we should on your observations. That is one of the problems of the whole congressional process, including hearings and every other aspect of it. We have to work under very tight timetables.

We really appreciate what you have had to say. The main question on my mind, beyond the Federal regulations to stop interstate contamination, is: What more can the Department of Agriculture be doing than they are doing now?

If you have any thoughts on that at the moment, this subcommittee would like to hear them. To the extent that you can provide further thinking to us after you review what is going on, the subcommittee would be very appreciative, especially in light of what happened in 1983-84.

Your voices can be very loud and effective voices because this subcommittee is determined to deal with this problem once we have received expert counsel.

We have to call on you as experts to give us that kind of advice. Is there anything any of you would like to say at this moment on that subject?

NEED FOR FEDERAL REGULATIONS

Mr. WENGER. I would like to address that briefly. The primary reason for our coming here is that we feel that if the U.S. Department of Agriculture was in the area coordinating the interstate standards of the cleanup, of the eradication, of the depopulation, and monitoring the blood tests that would be necessary to allow fowls to be more freely marketed once they are deemed to be clean, this would go a long way to clean this issue up.

I suffered through it in 1983 to a great degree. We know we have a very serious disease right now, but it can be stopped and it can be stopped quickly if, but only if, we have a general monitoring of virtually all interstate transportation, testing, eradication, and recertification of the housing.

Senator SPECTER. Thank you very much.

Mr. SHAFFER. I would like to address that briefly, Senator Specter.

Senator SPECTER. Certainly, Mr. Shaffer.

Mr. SHAFFER. We feel that there has to be interstate trucking regulations put into force. We also feel that there has got to be some testing done nationally on a percentage of the flocks in the other States to find out if there is any of it cycling in other States. We feel that this is very important besides controlling the present outbreak.

Also, we feel that there ought to be some funds from the Federal Government to aid the States in paying the indemnities, because the industry and the States involved, if this would spread a little more, would not have the resources to fall back on.

I would say, basically, that is what we are looking at, at this time.

Senator SPECTER. Thank you.

Mr. Weaver, would you care to add anything at this point?

Mr. WEAVER. I would just agree with both of these people. I think that there should be testing of trucks that are coming in or something on the interstate trucks. This is something that has to be done.

Senator SPECTER. We will proceed to press that. I will notify Secretary Block of the urgent need for Federal interstate sanitation regulations.

Gentlemen, thank you very much.

DEPARTMENT OF AGRICULTURE

Animal and Plant Health Inspection Service

STATEMENT OF HON. RAYMOND D. LETT, ASSISTANT SECRETARY FOR MARKETING AND INSPECTION SERVICES, U.S. DEPARTMENT OF AGRICULTURE

ACCOMPANIED BY:

DR. JOHN ATWELL, DEPUTY ADMINISTRATOR, VETERINARY SERVICES

DR. BUCK SHARMAN, ASSISTANT DEPUTY ADMINISTRATOR, ANIMAL HEALTH PROGRAMS

DR. CHARLES BEARD, AGRICULTURAL RESEARCH SERVICE, DIRECTOR OF THE SOUTHEAST POULTRY RESEARCH LABORATORY

SAM LADD, DIRECTOR, BUDGET AND ACCOUNTING, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Senator Specter. I would now like to call on the Honorable Raymond D. Lett, Assistant Secretary for Marketing and Inspection Services, U.S. Department of Agriculture. As I talk about a letter to the Secretary, perhaps that won't be necessary, except pro forma, because Secretary Lett can relay the message to the Department.

Mr. Secretary, thank you very much for joining us. I appreciate your willingness to come and address the problem.

Mr. Lett. Mr. Chairman, we are very happy to be here today to relate to you our concern about the avian influenza outbreak. We want to assure you that USDA is preparing for appropriate involvement.

Senator Specter. Mr. Secretary, would you begin by introducing your colleagues, please?

Mr. Lett. Yes; I would be happy to do that. I would like to introduce Dr. John Atwell, the Deputy Administrator of Veterinary Services, here to my right. Dr. Atwell is familiar with this problem and has worked with it since 1983.

Dr. Buck Sharman, the Assistant Deputy Administrator for Animal Health Programs, is on my far right, and to your left. Sitting on my left is Dr. Charles Beard of ARS, the Director of the Southeast Poultry Research Laboratory. Sam Ladd, the Director of Budget and Accounting for the Animal and Plant Health Inspection Service, is to my far left. I have asked these gentlemen to join me because of their expertise so that they may provide any detailed information you may need.

Senator Specter. Thank you very much.

COOPERATION IN CONTROL PROGRAM

Mr. Lett. I want to begin by pointing out that State, Federal, and industry cooperation during this outbreak has been excellent. We recognize that there has been great pain on the part of producers, particularly those who lose flocks. We recognize that even with indemnification, there is both trauma and financial loss.

Communication and cooperation among all those involved in disease outbreaks is essential. We commend you for holding this hearing and facilitating that communication.

Sporadic infection can quickly escalate to an epidemic if not contained. We learned that in 1983, when we had a low-path infection for approximately 6 months, and overnight it turned into a high-path infection. In other words, a situation can explode very rapidly.

DIFFERENCES FROM 1983–84 OUTBREAK

I would like to recap just briefly what happened in 1983 and 1984. We dealt with a highly pathogenic virus, an acute, highly contagious virus that was up to 90 percent lethal to poultry. A total of 12 million layers, 4 million broilers, and 1 million turkeys were destroyed at a cost of $65 million, including $42 million in indemnification payments to producers.

The current outbreak is not the highly pathogenic virus that was found in late 1983. At that time, approximately three-quarters of the test birds died. Of those birds laboratory-tested during this outbreak, only 4 of 64 have died.

Dr. ATWELL. We have samples from eight premises that have been run through the full cycle of laboratory tests. Each sample contained eight birds.

Mr. LETT. Testing has confirmed that this is a low-path infection. However, we recognize that the birds from any given flock may die. The potential for this virus, or any other type of influenza, to increase in pathogenicity by genetic change is always present. It also has the potential to continue indefinitely in its present state.

Probably our greatest concern is the way this infection has been spread. Whereas the 1983–84 outbreak was concentrated in the easily identifiable commercial poultry industry, the current outbreak started in the less structured commercial live poultry market. It was then spread by service traffic to large commercial operations via crates, vehicles, and birds themselves.

Because of the movement patterns of the market industry, there is direct risk to a much wider poultry population along the east coast than in the 1983–84 outbreak.

Currently, we have confirmed 10 premises as being infected by avian influenza—7 in Pennsylvania, 1 in New Jersey, 1 in New York, and 1 in Massachusetts. Over 333,300 birds in eight flocks have been depopulated at a cost of half a million dollars. Depopulation of the other two flocks is expected soon. On the Delmarva Peninsula, five flocks, totaling 240,500 birds, were potentially exposed to the disease through contact with trucks and crates from the New York live bird market. As a precautionary measure, producers voluntarily depopulated these flocks.

STATUS OF CURRENT EFFORTS

USDA personnel are collecting and testing samples, studying the epidemiology of the situation, and providing technical assistance on depopulation methods and cleaning and disinfecting measures. We are also working with the Avian Influenza Technical Collaborators. All parties involved understand that the most effective course of action in an outbreak of this nature is containment of the disease. This can be accomplished with a combination of early disease detection and destruction of infected poultry. Also, State quarantines have been applied to the infected premises in this case.

We believe that containment of the current outbreak can be accomplished with improved biosecurity—cleaning and disinfecting of crates and vehicles, and a continued cooperative State, Federal, and industry effort that generally adheres to the guidelines used during the 1983–84 outbreak. This can be done at a lower cost than the 1983–84 program.

We will continue to watch the situation closely and provide diagnostic assistance to the States upon request. In addition, we will provide technical advice for depopulation and cleaning and disinfecting procedures. We are prepared to take a more aggressive role in this effort should evidence develop of an outbreak of a highly pathogenic strain of the influenza virus.

We remain hopeful that it will not be necessary. The current State and industry efforts, augmented by Federal technical support, should be adequate to deal with the present avian influenza outbreak.

This concludes my statement. I will be happy to answer any questions that you may have.

[The prepared statement of Mr. Lett follows:]

STATEMENT OF RAYMOND D. LETT

Mr. Chairman, members of the committee, I appear before you today with representatives of the Animal and Plant Health Inspection Service [APHIS]. We are prepared to answer questions about the current avian influenza problem affecting the poultry industry in several Northeastern States.

Before I proceed with my opening remarks, I would like to say a few words about the State, Federal, and industry personnel who are now working to prevent the spread of the current avian influenza outbreak. Communication and cooperation between all those involved in these outbreaks is essential. Eradication is impossible without a cooperative State, Federal, and industry reaction to disease outbreak. Sporadic infection can quickly escalate to an epidemic if not contained. I want to take this opportunity to thank those who have reacted quickly and responsibly and assure those who have lost birds that their sacrifice, while painful, is necessary and appreciated.

With that background, I would like to briefly recap our efforts in the previous program, and report on the current one. The large avian influenza epidemic in 1983 and 1984 was caused by a highly pathogenic virus: an acute, highly contagious virus that was up to 90 percent lethal to poultry. Twelve million layers, almost four million broilers, and about one million turkeys were destroyed to quickly stop the spread of infection. Still, large costs and losses occurred. Federal costs exceeded $65 million, including $42 million in indemnities. The indemnities were paid to owners of the birds destroyed, somewhat mitigating their losses. However, in many cases the poultry producer did not own the birds but was a caretaker for a share of the owner's profits. These producers suffered large uncompensated losses. Altogether, poultry producers incurred $55 million in direct losses on birds and eggs, plus the additional cost of cleaning and disinfecting their premises. Consumers also incurred losses. As a result of reduced egg and poultry meat supplies, they paid higher prices for eggs and poultry. Although these losses did cause some hardship, they were minimal compared to the likely catastrophic effect on the poultry industry which could have occurred if we had not acted quickly.

The current outbreak is not the highly pathogenic virus that was found in late 1983 isolates which killed three-fourths or more of test birds. When test birds are inoculated with the present isolates, they generally remain healthy and very few die. The potential for this virus or any other type of influenza to increase in pathogenicity by genetic change is always present. It also has the potential to continue indefinitely in its present state. But probably our greatest concern is the way this infection has been spread. Whereas the 1983–84 outbreak was concentrated in the easily identifiable commercial poultry industry, the current outbreak started in the less structured commercial live poultry market. It was then spread via service traffic to large commercial operations, via crates, vehicles, and birds themselves. Because of the movement patterns of the market industry, there is direct risk to a much wider poultry population along the east coast than in 1983–84.

Currently we have confirmed 10 premises as being infected by avian influenza: 7 in Pennsylvania, 1 in New Jersey, 1 in New York, and 1 in Massachusetts. States and industry have reacted quickly in an enthusiastic cooperative effort. They have depopulated sick and exposed birds immediately—333,300 birds in eight flocks at a cost of approximately $500,000. Depopulation of the other two flocks is expected soon. On the Delmarva Peninsula, five flocks, totaling 240,500 birds were potentially exposed to avian influenza through contact with trucks and crates from New York's live bird market. As a precautionary measure, producers voluntarily depopulated these flocks. USDA personnel are collecting and testing samples, studying the epidemiology of the situation, and providing technical assistance on depopulation methods and cleaning and disinfecting procedures. We are also working with the Avian Influenza Technical Collaborators.

We have found that the most effective course of action in an outbreak of this nature is containment of the disease. This can be accomplished with a combination of early disease detection with destruction of infected poultry. State quarantines have been applied to infected premises. We believe that containment of the current outbreak can be accomplished with improved biosecurity—cleaning and disinfecting of crates and vehicles—and a continued cooperative State, Federal, and industry effort that generally adheres to the guidelines used during the 1983–84 outbreak at less cost than the 1983–84 program. We are watching the situation closely and providing diagnostic assistance to the States upon request. In addition, we are providing technical advice for epidemiologic, depopulation, and cleaning and disinfection procedures. Although we are prepared to take a more aggressive role in this effort should evidence develop of an outbreak by a highly pathogenic strain of the influenza virus, we remain hopeful that it will not be necessary. We believe that current State and industry efforts augmented by Federal technical support should be adequate to deal with the present avian influenza outbreak. This concludes my prepared statement. I would be happy to entertain questions at this time.

NEED FOR FEDERAL REGULATIONS

Senator SPECTER. Thank you very much, Secretary Lett.

What do you think is practical, if anything, on some Federal regulation of interstate sanitation, to deal with some of the concerns which were expressed here earlier today?

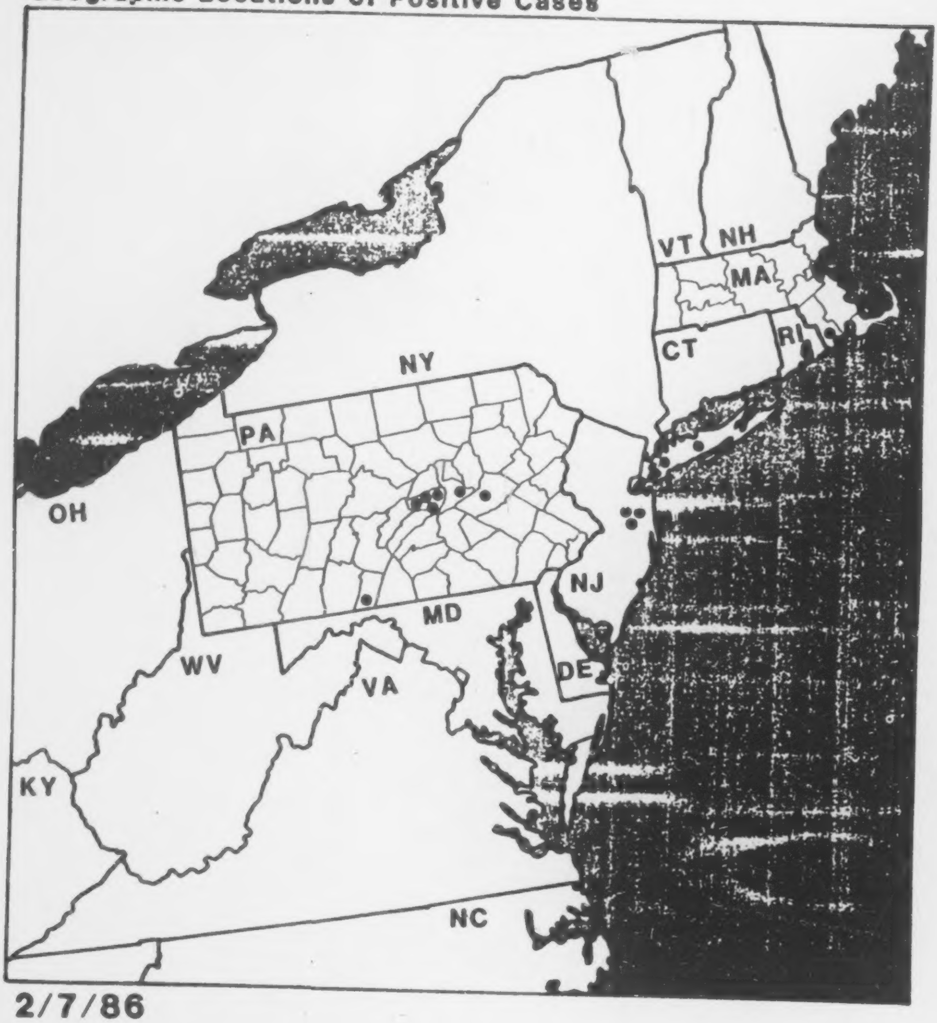
Mr. LETT. I would like to ask Dr. Sharman to present to you a map and some diagrams of where the problem is and how it works from flock to flock.

Senator SPECTER. Certainly, if you would identify yourself and then proceed.

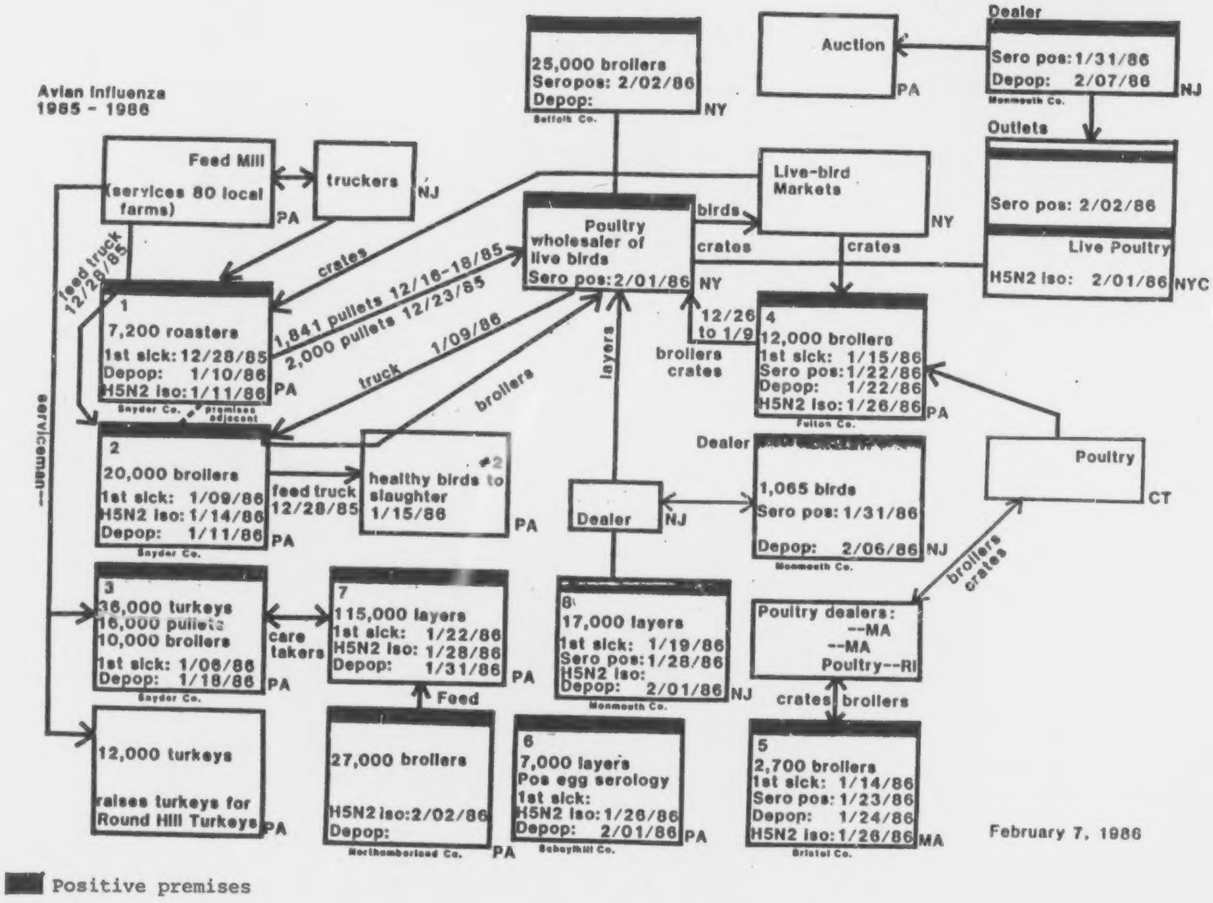
[The information follows:]

Avian Influenza

Geographic Locations of Positive Cases


NY
VT
NH
MA
CT
RI
PA
OH
NJ
MD
DE
WV
VA
KY
NC

2/7/86


Avian Influenza
1985 - 1986
Feed Mill
(services 80 local farms)
PA
truckers
NJ
feed truck 12/28/85
crates
1
7,200 roasters
1st sick: 12/28/85
Depop: 1/10/86
H5N2 iso: 1/11/86
PA
Snyder Co.
premises adjacent
1,841 pullets 12/16-18/85
2,000 pullets 12/23/85
truck 1/09/86
brollers
2
20,000 broilers
1st sick: 1/09/86
H5N2 iso: 1/14/86
Depop: 1/11/86
PA
Snyder Co.
feed truck 12/28/85
#2
healthy birds to slaughter 1/15/86
PA
serviceman--
3
36,000 turkeys
16,000 pullets
10,000 broilers
1st sick: 1/06/86
Depop: 1/18/86
PA
Snyder Co.
care takers
7
115,000 layers
1st sick: 1/22/86
H5N2 iso: 1/28/86
Depop: 1/31/86
PA
Feed
12,000 turkeys
raises turkeys for Round Hill Turkeys
PA
27,000 broilers
H5N2 iso: 2/02/86
Depop:
Northumberland Co.
PA
25,000 broilers
Seropos: 2/02/86
Depop:
Suffolk Co.
NY
Poultry wholesaler of live birds
Sero pos: 2/01/86
NY
birds
crates
layers
Live-bird Markets
NY
crates
12/26 to 1/9
broilers crates
Dealer
NJ
8
17,000 layers
1st sick: 1/19/86
Sero pos: 1/28/86
H5N2 iso:
Depop: 2/01/86
NJ
Monmouth Co.
6
7,000 layers
Pos egg serology
1st sick:
H5N2 iso: 1/26/86
Depop: 2/01/86
PA
Schuylkill Co.
Auction
PA
Dealer
Sero pos: 1/31/86
Depop: 2/07/86
NJ
Monmouth Co.
Outlets
Sero pos: 2/02/86
Live Poultry
H5N2 iso: 2/01/86
NYC
4
12,000 broilers
1st sick: 1/15/86
Sero pos: 1/22/86
Depop: 1/22/86
H5N2 iso: 1/26/86
PA
Fulton Co.
Dealer
1,065 birds
Sero pos: 1/31/86
Depop: 2/06/86
NJ
Monmouth Co.
Poultry
CT
broilers crates
Poultry dealers:
--MA
--MA
Poultry--RI
crates
broilers
5
2,700 broilers
1st sick: 1/14/86
Sero pos: 1/23/86
Depop: 1/24/86
H5N2 iso: 1/26/86
MA
Bristol Co.
February 7, 1986
Positive premises

Dr. SHARMAN. I am Dr. E.C. Sharman, Assistant Deputy Administrator for Animal Health Programs.

Mr. Chairman, first, I would like to show you a map of where the problem is located today. Most of the flocks have been in Snyder County, PA. We have one on the Maryland border in Fulton County and one in New Jersey. You will see three red dots in New York City, which do not represent poultry flocks, but samples that we collected from the retail market of live birds. Two were serologically positive and one was actually isolated. We also have an infected flock in Suffolk County, Long Island and one infected flock in Massachusetts.

As has been alluded to earlier, this virus spreads very easily and very rapidly. During the cold winter months, it has the capability to survive for extended periods of time outside of the bird's body.

Some of the ways this virus is being spread include movement of trucks and service personnel, the movement of chicken crates used to haul birds, the movement of equipment, the movement of people, and any contact between backyard flocks and commercial flocks.

I think we have to look at three different segments of the poultry population in this country to properly address the problem.

First, we have commercial poultry operations. This includes broilers, layers, and the turkey industry. These birds are raised for going to slaughter.

Then we have what we call the commercial live bird market. These birds, such as broilers, are raised primarily for sale to the live bird market in the large cities.

Another segment that we have to look at is the backyard flock. This can be anything from a few broilers to a complete menagerie of birds.

As soon as we were alerted that we had a problem in Pennsylvania, we sent our epidemiologists in to start gathering data to determine what was going on. The first indication was that there had been contact with the live bird market in New York. We believe that this market is the source of the virus.

Senator SPECTER. If it is agreeable with you, I would like to have those details pursued after the hearing because of our time constraints. What I would like to focus on at the moment is what we might do, given that factual background, by way of an interstate regulation which would deal effectively with the problem?

Mr. LETT. Mr. Chairman, I would like Dr. John Atwell to address that. He is the Deputy Administrator for Veterinary Services.

My own answer to your question is, yes, we can promulgate regulations to control the interstate movement of these flocks, live birds, or eggs. We have that authority. There is a question of funding, which we want to address. But I would like Dr. Atwell to talk about the regulatory aspects.

Dr. ATWELL. I am John Atwell, Deputy Administrator for Veterinary Services.

AUTHORITY TO ISSUE REGULATIONS

The Secretary of Agriculture has the authority to establish interstate regulations to control the movement of birds, crates, and the equipment that we are concerned with in this particular outbreak.

In the outbreak of 1983–84, segments of the poultry industry came to the Department and urged that such regulations be adopted. Other segments of the poultry industry said very strongly, that if we could get rid of the disease they would take care of the problem themselves with internal regulations. That did not happen and we have the outbreak here again.

As Secretary Lett said, if we develop such regulations, the ability to enforce them depends upon adequate resources.

Senator SPECTER. You do have the authority. One question is: Is it desirable? I think that the answer to that is pretty conclusively, yes, it would be desirable.

Dr. ATWELL. Yes; I agree with your assessment.

Senator SPECTER. The next question would be——

Dr. ATWELL. I would qualify that to this extent. As you can tell from comments by the industry itself, there is hesitancy on its part for us to declare an extraordinary emergency because of low-path infection. There is a reluctance for us to do that at this point.

Senator SPECTER. You don't have to do that in order to promulgate a regulation.

Dr. ATWELL. No; you are correct, but I just wanted to make the distinction between the two.

BENEFIT OF FEDERAL REGULATIONS

Senator SPECTER. With respect to enforcement, it is great if you have enforcement. Enforcement is always tough, nobody knows that better than Senator Bumpers, who was the chief executive of his State, or this Senator, who was District Attorney of Philadelphia, so you enforce regulations to the extent you can. But simply having the regulation on the books establishes a standard of conduct, then we enforce it to the extent that we can. For one thing, it can give a private right of action, if someone has violated the regulation. The enforcement question is one of funding, and let's address that now.

To what extent is there funding available to enforce such a regulation?

Mr. LETT. Mr. Chairman, Dr. Atwell would like to make one statement on the regulation.

NEED FOR STATE REGULATIONS

Dr. ATWELL. If you look at this outbreak, interstate regulations will not solve the entire problem. Interstate regulations should be adopted, but State regulations also need to be adopted to control intrastate movement of people transporting birds before they move interstate. You can have a very substantial outbreak occur in a State like Pennsylvania or New York simply with intrastate movement.

Senator BUMPERS. If you have a regulation dealing with interstate commerce, would that not also extend to the movement of chickens within the State without crossing the State line? If you have an outbreak down there on the southern border of Pennsylvania, right next to Maryland, and a northbound truck picks up those chickens, would interstate regulations not apply to that truck, as well as to one going south into Maryland?

Mr. LETT. Senator, in the absence of intrastate regulations, we have to do our enforcement at the State line.

Senator BUMPERS. So you are leaving the rest of it to the State. In other words, in the illustration I gave you, if chickens are picked up in Pennsylvania, and taken to a processing plant in Pennsylvania, then you have no jurisdiction over them. Is that what you are saying?

Mr. LETT. Yes; at the borders between States we can regulate any movement of live birds. But as the chart points out, there are problems other than just live birds and that includes the movement of feed and other products within the State. If we want to totally control this disease, we are going to have to have controls within the State as well as between the States, and it is going to have to extend to things other than just the birds themselves.

Senator BUMPERS. If you declared an emergency, could you do that?

Mr. LETT. If we declare an emergency, we can regulate the intrastate movement of affected or exposed birds only. The Department is proposing new legislation that would expand this authority to include animals and related products not necessarily found to be affected or exposed.

EFFECTS OF FUNDING RESTRAINTS ON ENFORCING REGULATIONS

The chairman also asked about funding. Let me make a preliminary comment on it. What we have been faced with, Senator, is that in addition to the Gramm-Rudman-Hollings sequestration, which is going to cut approximately $13 million from 1986 APHIS funding, we have been asked to reprogram $13 million for citrus canker. The House plans to hold hearings on that issue.

After these actions, we will be short of funds. I will ask our budget director to comment on that.

Mr. LADD. Senator, funds are appropriated to the Animal and Plant Health Inspection Service for specific program activities. We have approximately 35 programs identified by the congressional Appropriations Committees in giving us our funds. We are restricted to expending our moneys for those programs only. No funds have been appropriated for avian influenza.

If we are to take any funds from those programs, we must do it with the concurrence of the committees.

Senator BUMPERS. With the concurrence of committees?

Mr. LADD. Yes; we need the committees' concurrence to reprogram. That is what Mr. Lett was referring to with regard to our citrus canker program. We are attempting to reprogram about $13 million for that effort right now.

What I am saying is that if we do reprogram, it takes funds away from what has been earmarked for agricultural quarantine inspection or any number of other programs that we have.

Senator BUMPERS. Is APHIS a single line item?

Mr. LADD. APHIS has a single appropriation. However, the committees, in their reports, in essence, identify line items for us by expressing their intent.

COST OF ENFORCEMENT

Senator SPECTER. Would you do this for the subcommittee—would you give us an estimate of what it would cost to do enforcement?

I think that we are in agreement that a regulation ought to be promulgated simply for its value as a regulation. We would ask that you give us some idea as to what it would cost to enforce it in varying degrees and your judgment of what else might be done on the avian flu problem.

I would like to pursue this further now, but we are past 11:30, and we simply have to bring the hearing to a close. Of course, we are going to be having Appropriations Committee hearings on the overall budget, and this is something that we will tackle there as well.

I agree with what Senator Bumpers has said, that it is the responsibility of the Congress to make these priority assessments, and we will do that. We have just gotten started on that here, and it is a vast subject. If you will prepare cost estimates for an enforcement program for interstate truck and equipment sanitation, that would be appreciated.

Mr. LETT. I have asked for that kind of information to be prepared already, so it will not take us very long to send a cost estimate to you.

Senator SPECTER. That will be very helpful.

We very much appreciate your prompt response to our request to appear here today. Unless Senator Bumpers has anything further——

VACCINE FOR AVIAN FLU

Senator BUMPERS. Mr. Chairman, if I could just ask a couple of rather technical questions.

First, is there a vaccine against this?

Mr. LETT. If you don't mind, I would like to ask Dr. Beard who is our research expert to discuss that.

Senator BUMPERS. Is there a vaccine?

Dr. BEARD. In the late 1970's, we were concerned that we needed alternatives to total eradication should avian influenza get away from us. We developed a very effective oil emulsion vaccine. It was tested, and it has been used under a restricted license in turkeys. The industry is backing off on its use, however. It could be effective in reducing mortality due to virulent influenza, especially in layers and in turkeys. However, it is absolutely an improper alternative to eradication for the broiler industry because of the short lifespan of the broiler, and the length of time required for antibody response for oil emulsion vaccine. It also is very labor intensive, and is just not an appropriate alternative to eradication for the broiler industry.

BIOLOGICAL SPREAD OF VIRUS

Senator BUMPERS. Let me ask you a second question. Does this virus survive in hot weather?

Dr. BEARD. Not nearly as well as it does in wintertime. In cold, wet conditions, like in wet feces, such as you would have in a contaminated chicken coop or crate, it can survive for extremely long periods of time. In hot weather, as the feces dry out in the heat, the virus is inactivated in just a few days.

Senator BUMPERS. Is it spread mostly through the feces?

Dr. BEARD. That is a very convenient way for it to be spread because that is one of the primary ways in which the virus is shed. There are millions of virus particles in the feces of infected birds, and that is a very common means for it to be spread.

Senator BUMPERS. Can it be spread by migratory water fowl?

Dr. BEARD. Migratory water fowl and sea birds are known to be an international, continuing reservoir of a multitude of avian influenza viruses. If you went back in this current outbreak far enough, you would probably find migratory water fowl comingling with domestic water fowl in a backyard situation, and then getting into commerce by an individual selling a few birds to the live bird market. If I had to guess, that is probably the way that it was introduced into the live market.

HISTORY OF AVIAN FLU OUTBREAKS

Senator BUMPERS. How long have we known about this particular influenza in poultry?

Dr. BEARD. Influenza became a problem in U.S. turkeys with a mild virus being detected in the early 1960's.

Senator BUMPERS. Was that our first brush with avian influenza?

Dr. BEARD. Yes; other than fowl plague which was eradicated in New Jersey in the late 1920's. Fowl plague was determined to be an avian influenza in 1955, but the country was free of it after the successful eradication effort in the late 1920's, until avian influenza was demonstrated in turkeys in the 1960's. It has generally been a mild problem in turkeys in the United States.

The Pennsylvania outbreak was the first serious problem we have had in this country in chickens. It happened to be an H5 influenza virus. There are 13 H antigens—hemagglutinins—in avian flu. Viruses with two of the H's, 5 and 7, 7 being fowl plague, seem to be the real troublemakers. I am extremely concerned over the virus that is currently circulating in Pennsylvania and other States in the Northeast. It has the potential to do exactly what it did in the earlier 1983 outbreak. I am very concerned about that possibility.

Senator BUMPERS. What is the farthest south this influenza has ever been diagnosed?

Dr. BEARD. There was an outbreak in 1975 in three chicken flocks that was self-limiting in Alabama. It was an H4, and it caused 69 percent mortality in the first flock, less in the next flock, and then less in the third flock, and then it disappeared. A serologic survey in the surrounding area proved that it had not extended beyond those few flocks.

There is serologic evidence of one turkey flock in North Carolina having had an H1 virus, and one other virus isolation from North Carolina in 1984. It has not been a major disease problem in the South so far.

CAUSE OF CURRENT OUTBREAK

Senator BUMPERS. Did you hear the allegation of the gentleman from Pennsylvania a while ago about the one company which, through their coops and so on, had spread this?

Dr. BEARD. Do you mean the company hauling for the live bird market in New York?

Senator BUMPERS. I suspect that was it. It was supposedly one company.

Dr. BEARD. It would be a very feasible way to do it. The company can go out and pick up an infected flock, take it in, and distribute it through the wholesale market to several retailers. The birds stay in the coops until they are sold. They are fed and watered in those coops, and the coops become filthy with feces containing virus. Then the coops are picked up by another hauler, or the same hauler, and they go out into the industry to make other pick ups of poultry. The coops can go into the poultry houses, where haulers make a partial pickup of birds, leaving influenza-exposed birds in that same house. Yes; that would be an ideal way to spread it very rapidly through a wide geographical area.

Senator BUMPERS. Do you know about this particular company that was alluded to? Do you know who he is talking about?

Dr. BEARD. I think Dr. Atwell can probably answer that question.

Dr. ATWELL. Senator, we are aware of the company. Dr. Sharman can show you on the chart how that company is identified, and how it moves the birds.

LIVE POULTRY MARKETS

Senator BUMPERS. I would like that, but before you show me, let me ask you one other thing. You discussed a market for poultry that I am not familiar with. You talked about the live bird market. Who do the live birds go to? Who do you sell them to?

Dr. SHARMAN. They go to the large metropolitan areas, such as New York City, to wholesalers who then sell them to retailers for Chinese restaurants or other groups that like to buy live poultry.

Senator BUMPERS. Do Chinese restaurants buy live poultry, and kill them themselves?

Dr. SHARMAN. Yes, sir; they buy not only chickens, but ducks and other poultry. Also, they can be killed at the wholesaler's or retailer's premises, depending on how the purchaser wants the birds.

Senator BUMPERS. Is that a very big market?

Dr. SHARMAN. Yes; it is a fairly good sized market. It is certainly not anything to compare with our commercial poultry industry, but it is a viable market. As I mentioned earlier, we are looking at three different segments of the poultry population in this country: the commercial poultry industry, the commercial live bird haulers, and the people raising birds just for the live market.

Senator BUMPERS. Just like Long Island ducks.

Dr. SHARMAN. Yes, sir; in fact, the one positive premise we have on Long Island now, dealt with the live bird market. Another problem is the backyard flock.

Senator BUMPERS. I am going to have to run very quickly here. Would you cover for me what you started a while ago. I was interested in that.

Dr. SHARMAN [pointing to chart]. This is the live bird market that we have inspected in New York. We know of two others, and there may be other wholesalers in New York dealing in the same market. They send trucks out with empty crates to pick up birds. It could be a partial pickup, as occurred in the first premise that was infected in Pennsylvania.

HISTORY OF CURRENT OUTBREAK

This particular premise became infected on December 28. That was the first time of clinical signs of the H5N2 virus which was isolated after the birds were depopulated on January 11. But the wholesaler in New York had sent the trucks out and picked up birds on December 16 and 18; prior to the virus first showing up on December 28.

In addition, on December 23, still just prior to sickness showing up, another load of 2,000 pullets were picked up and brought to this wholesaler in New York. The second operation that was confirmed with avian influenza had 20,000 broilers, and had a partial pick up on January 9 from this same wholesaler in New York.

When we look at Massachusetts we see the same story. The birds were picked from this premise in Massachusetts and brought back into this particular operation.

We have been to retail places in New York City and collected samples. We have had three different collections in New York, and we had early information that two locations were serologically positive for this virus. In one of the places that we picked up samples, we have actually isolated the H5N2 virus. So it indicates that there is a lot of virus circulating in the live bird market.

Senator BUMPERS. I am going to have to cut you off because I have to run. I apologize for that because I find that very interesting.

Dr. SHARMAN. Could I make one point?

Senator BUMPERS. Sure.

Dr. SHARMAN. It has been alluded to that the source of this outbreak was New York. That is how far we can trace back the virus.

Senator BUMPERS. I see what you are going to say.

Dr. SHARMAN. We do not know the original source of infection.

AVAILABILITY OF FUNDS

Senator BUMPERS. One other question, Mr. Secretary. If this thing really gets out of control and you have to declare an emergency, No. 1, do you have funds available by declaring an emergency that are not available to you otherwise; No. 2, if you don't declare an emergency, and you run into the kind of expenditures we had in 1983, do you have the money available to you right now?

Mr. LETT. Senator, we do not have the money available to us. Sometimes we use CCC funding for emergencies. At the present time, as you are aware, there are no CCC funds available. So if we were to declare an emergency today, we could not go to CCC.

The reason I refer to CCC is that the Secretary has used it in the past, and it is a readily available source of funds when the corporation has adequate funding. We could consider a supplemental, but there has been—since the Gramm-Rudman-Hollings law introduction—a great reluctance to introduce a supplemental either for citrus canker or for this.

Senator BUMPERS. Gentlemen, thank you all very much. It has been a good hearing.

PREPARED STATEMENT AND SUBMITTED QUESTIONS

We have a statement that has been submitted to us by the Delmarva Poultry Industry, Inc., which we will include in the record. I also understand that some Senators have questions which they will submit to you, Mr. Secretary, for the record.

Mr. LETT. We will be happy to respond to those questions.

[The statement and the questions which were not asked at the hearing but were submitted for response for the record, follow:]

STATEMENT OF FRANK R. CRAIG, D.V.M., CHAIRMAN, DELMARVA POULTRY INDUSTRY EMERGENCY POULTRY DISEASE TASK FORCE

We greatly appreciate this opportunity to comment on the current AI situation that is threatening the poultry and egg industries throughout the northeast.

This statement is on behalf of Delmarva Poultry Industry, Inc. (DPI), a non-profit, regional trade association dedicated to the continued progress of the broiler industry on the Delmarva Peninsula. This area produces nearly 12% of the total broilers in the United States and is the fourth largest producing area. Nineteen hundred eighty-five production was 490,000,000 broilers. DPI's 4,000 plus members consist of growers, integrated poultry companies, allied industries and others interested in the poultry industry and the economic well being of this fourteen-county area.

Avian influenza is truly an emergency disease requiring high level and immediate emergency control and eradication measures when an outbreak occurs. Federal expertise, supported by adequate federal funding, is absolutely essential to a control and eradication effort. One hundred percent of the total poultry population east of the Mississippi River is totally susceptible to infection. It is well established that avian influenza viruses are capable and do inflict heavy losses on chicken populations, especially young birds such as broilers and commercial egg pullets.

The eradication of the present avian influenza outbreak in the Northeast is absolutely essential to the survival of the poultry industry. This is especially significant for the northeast area industry which is already facing production economic hardships.

"Living with" avian influenza is totally incompatible with the highly efficient, intense poultry production system which has provided the United States with an abundance of inexpensive, high quality animal protein. Poultry is unequaled in its efficiency in converting plant nutrients into a human food which is used almost daily by American families.

Emergency type diseases such as avian influenza must be controlled and eradicated through quick and bold action. If allowed to run a course, inadequately interrupted by human, physical and monetary resources, AI will quickly transcend state boundaries. Historically, individual states have been unable to provide adequate essential epidemiological, diagnostic and eradication expertise or adequate funding to bring AI under control and to eventually eradicate the disease.

An area's poultry industry is rarely confined to a single state. Therefore, movements of eggs, chicks, other live birds, feed and feed ingredients, equipment and people services across state lines are very common. For example, the Delmarva poultry industry purchases feed ingredients from Pennsylvania and New Jersey plus gravel and limestone from Pennsylvania. Maryland and Delaware commercial egg birds are fed out of Pennsylvania. Broiler hatching eggs from North Carolina are shipped into Virginia, Delaware, Maryland and Pennsylvania with the Delmarva billion dollar broiler industry obtaining 70% of its hatching eggs from North Carolina. AI and attendant quarantines would decimate broiler production on Delmarva.

By the time a state or even a region can develop an adequate effort in the control and eradication of AI, the problem is likely to have spread beyond the capability and resources of a single state. Federal assistance is essential to stamp out the problem in its early stages in order to prevent a disastrous impact on a single state's industry and the spread of the infection to other poultry areas.

On January 29, 1986, representatives from 11 northeastern states met in College Park, Maryland to discuss the development of a regional approach to the control of the current AI outbreak. There was little doubt that a major concern exists, supported by the fact that the origin of the current problem involves live bird haulers supplying a New York City live poultry market. The haulers are based in New Jersey and several New England states and birds are picked up in Pennsylvania, Delaware, Maryland, New

Jersey, Massachusetts, Connecticut, New Hampshire, Vermont and Maine. This complex system of supplying the large metropolitan market, all of which has not yet been identified, has already resulted in several known locations of AI infection.

The magnitude of the current outbreak has been only partially defined. The problem is clearly one of major significance, requiring federal involvement. DPI very strongly supports the immediate development of a federal effort in the form of a declaration of a National Emergency on Avian Influenza by the U. S. Secretary of Agriculture.

New emergency funding must be made available immediately from federal sources. Budget constraints over the past several years have reduced the manpower and support resources of APHIS to the point that Veterinary Services is unable to provide the necessary expertise and sufficient support to bring the present problem under control and to the point of eradication -- unless they are provided additional funds.

Although humans are NOT affected by AI as a result of direct contact or consumption of poultry and egg products, it would be disastrous to the poultry and egg industries on Delmarva!

DELMARVA POULTRY INDUSTRY, INC.

Frank R. Craig

Frank R. Craig, D.V.M., Chm.
DPI Emergency Poultry Disease
Task Force

Otto K Lange

Otto K. Lange
President

QUESTIONS SUBMITTED BY SENATOR SPECTER

Question: What actions have you taken since the 1983/1984 AI outbreak to better control and understand this disease?

Answer: From our field experience and research, we believe that avian influenza spreads to poultry through contact with wild waterfowl which have the disease on a naturally occurring basis. Once poultry are infected, AI is spread through market channels by live birds or virus laden feces in conveyances such as crates, coops, and egg flats.

We believe the best way to keep AI out of the poultry industry is through improved biosecurity practices, such as avoiding poultry contact with wild waterfowl and following proper cleaning and disinfection techniques for conveyances and premises. USDA is disseminating this information through news releases, meetings and contacts with State and industry officials, and publication of an AI eradication guide that outlines control and eradication procedures.

Question:_ Does USDA have any funding for AI eradication or research?

Answer: USDA does not have funds for eradication. Research on AI is carried out at the ARS Southeast Poultry Research Laboratory and through a cooperative agreement with the University of Wisconsin. ARS plans to spend $685,000 on AI research in FY 1986.

Question: Has any research been done in USDA that would give us some longer-term solution to AI other than bird depopulation?

Answer: Our research shows that disease prevention through improved biosecurity is the key to controlling AI. AI is passed to poultry through contact with wild waterfowl. It then spreads from one operation to another through live birds and virus-laden feces in conveyances such as crates, coops, and egg flats. We can take a giant step toward eliminating AI from the poultry industry by using improved biosecurity. This would eliminate the need to engage in costly and disruptive eradication programs.

Question: Since the last outbreak, what criteria have you developed to limit the imposition of quarantines?

Answer: We have not changed our criteria for imposing quarantines. We establish quarantines to stop further disease spread and to eradicate the disease within the quarantine zone.

In the event of a Federal quarantine, USDA would make every effort to lessen the economic impact on affected producers. During the 1983/1984 emergency, USDA tried to set quarantines so that producers had a poultry processing plant within the quarantined area. We would examine similar approaches if a Federal quarantine is again necessary.

Question: Have you done any work on "site-specific" quarantines as an alternative to county or area quarantines?

Answer: We have not changed our basic criteria for imposing site-specific quarantines. We would use a site-specific quarantine if the disease was isolated to a premise and there was no chance of spread.

Question: Is your current legislative authority sufficient to allow you to impose site-specific quarantines?

Answer: Yes, we have sufficient legal authority to impose site-specific quarantines. However, we could not enforce the quarantine until birds from the site crossed State lines. This means that the authority must be used in conjunction with State site-specific quarantines, or the regulatory effect would be diminished.

Question: What research work has been done by USDA to evaluate the use of inoculation as a means of preventing future outbreaks?

Answer: The ARS Southeast Poultry Research Laboratory is evaluating the use of vaccines as a means of preventing future outbreaks. APHIS, through its veterinary biologics testing program, has tested the effectiveness of currently available vaccines against avian influenza. Our research shows that use of AI vaccines is not a viable means of preventing future outbreaks. We have found that short-lived birds such as broilers do not live long enough to complete the vaccination process and vaccinated birds can still be infected with AI and shed viruses. In addition, the use of vaccine for H5 or H7 avian influenza could cause foreign countries to embargo U.S. poultry. During an emergency, inactivated vaccines could be used within quarantine areas in certain flocks, provided the vaccinated birds are slaughtered before the quarantine is released.

Question: What research has been done to determine the source or cause of the 1983/1984 AI infection?

Answer: Research done by Dr. Robert Webster at St. Jude's Childrens Hospital in Memphis, Tennessee, indicates that avian influenza viruses commonly occur in wild waterfowl. He believes that waterfowl introduced type A H5N2 virus to poultry in the 1983 outbreak. The virus changed from a low pathogenic to a highly pathogenic avian influenza after repeated passages through domestic poultry.

Question: What research has been done to develop standards for distinguishing between the dangers of highly pathogenic and low pathogenic avian influenza?

Answer: ARS, through the Southeast Poultry Research Laboratory and a cooperative agreement with the University of Wisconsin, is working to improve standards to identify pathogenic AI in the laboratory. ARS is analyzing the microbiology of individual viruses.

Question: What objective criteria have you developed to determine at which point during an AI epidemic the Secretary of Agriculture should declare that an extraordinary emergency exists?

Answer: The main criteria for declaring an extraordinary emergency is that the affected States are not taking adequate measures to control avian influenza and that the disease is threatening the poultry industry of the United States. Typically, a State will request the Federal Government to declare an extraordinary emergency after it has exhausted its available resources or after some type of court action by producers has limited the States' ability to control the disease.

Question: Does an outbreak have to be interstate or reach a certain dollar value of damage before an emergency is declared?

Answer: No, the disease does not have to spread interstate or cause a specific monetary loss before the Secretary of Agriculture declares an emergency.

Question: During the 1983/1984 outbreak many Pennsylvania farmers felt that they were inadequately compensated for their losses. In particular, owners of specialty, rare, exotic, and breeder birds felt that they were not adequately compensated. Do you think that current legislation needs to be clarified to require adequate compensation for owners of such birds?

Answer: We sympathize with owners who had their birds depopulated during the 1983/1984 emergency. We tried to reduce their economic disruption through payment of indemnities based on fair market value established by sales records or opinions of impartial expert appraisers. We believe that fair market value is the most objective way to compensate owners of depopulated birds and do not believe current legislation needs revision.

Question: What action do you think is warranted to insure that these classes of bird owners are adequately compensated in the future should the need arise?

Answer: We believe that payment of fair market value based on sales records and expert appraisal is the most objective means to compensate bird owners for their losses.

Question: Another class of farmers who may not be adequately addressed by current law are those farmers in quarantine areas whose birds were not depopulated but who could not sell their live birds outside the quarantine area. What do you think needs to be done to address the economic loss for farmers in such circumstances?

Answer: In the event of a Federal quarantine, USDA would make every effort to lessen the economic impact on producers with healthy birds. During the 1983/1984 emergency, USDA tried to set quarantines so that producers had a poultry processing plant within the affected area. We would examine similar approaches if a Federal quarantine is again necessary.

Question: I have been informed that the recent reintroduction of the AI virus into Pennsylvania came as a result of inadequate sanitation of crates and equipment of livehaul truckers. Is this correct?

Answer: Yes, we believe the virus was introduced into Pennsylvania through contaminated crates and coops used by livehaul trucks.

Question: How many trucking companies were involved in spreading the disease?

Answer: At least two trucking companies were involved in spreading the disease.

Question: What was the state of origin of these trucks?

Answer: The State of origin of the trucks was New Jersey.

Question: How many farms did this trucking firm visit during the outbreak period? Which states did they visit?

Answer: The trucking firms in New Jersey haul for many individuals in a number of States. We know that they hauled live birds into New York City from New Jersey and Pennsylvania.

Question: Are there any prohibitions against carrying diseased birds across state lines?

Answer: 9 CFR, Part 73.1 prohibits the interstate movement of poultry affected with any communicable disease.

Question: What is USDA's legislative mandate in controlling the interstate spread of communicable animal diseases?

Answer: 21 USC 111 states that the Secretary of Agriculture has the authority to make "regulations and take such measures as he may deem proper to prevent the introduction or dissemination of the contagion of any contagious, infectious, or communicable disease of animals and/or live poultry from a foreign country into the United States or from one State or Territory of the United States or the District of Columbia to another ..."

Question: Does USDA have adequate legislative authority to deal with the interstate movement of diseased birds?

Answer: Yes, USDA has adequate authority.

Question: What is USDA doing to determine which other states have an AI problem?

Answer: For the current outbreak, we have traced infected birds found in Pennsylvania to the live bird market in New York. We are tracing movement of infected birds to other States and have found infected or exposed flocks in Pennsylvania, Massachusetts, New Jersey, and New York. We are actively monitoring birds in States which are involved in the live bird market for infection or exposure to AI.

In addition, USDA's National Veterinary Services Laboratories in Ames, Iowa, function as the National Reference Laboratory for avian influenza, meaning that States send all suspicious AI samples to NVSL for identification. Once we have confirmed a positive case, we conduct epidemiology and tracebacks of infected poultry to determine which States have been exposed to AI.

Question: How is AI information disseminated to the poultry industry?

Answer: We disseminate information on AI through press releases, informational memorandums, conferences, and telephone calls to industry groups and State officials.

Question: In your opinion what role should state governments play in controlling the interstate spread of animal diseases?

Answer: Each State needs to work with industry to identify and contain poultry disease within its boundaries by supplying industry with information on biosecurity, developing regulations or standards on cleaning and disinfection of coops, crates, and premises, providing basic laboratory support for its poultry industry, and surveying for AI infected flocks.

Question: Without an adequate AI surveillance program, there would seem to be no way to control the interstate movement of diseased birds short of stopping all trucks at the state line. Because one state cannot force another state to provide AI surveillance, there seems to be a need for federal action to control the interstate spread of this disease. What do you think the Federal role should be in controlling the interstate movement of disease birds?

Answer: The Federal Government has the responsibility of ensuring that poultry with communicable diseases such as AI do not move in interstate commerce. To meet this commitment, the Federal Government needs the cooperation of States and industry. Clearly, it is impractical to test all poultry moving interstate since infected poultry do not exhibit significant external symptoms and tests for AI take many days to complete.

We believe the best approach is disease prevention through improved biosecurity practices and active surveillance by States before birds move in interstate commerce. The Federal government will assist States and industry in this effort with epidemiological, diagnostic, and technical assistance. By working together, we can maintain a climate of prevention which will keep this devastating disease out of our poultry industry.

Question: Which States currently have AI surveillance programs?

Answer: Vermont, New Hampshire, Pennsylvania, Delaware, Minnesota, and Maryland have active AI surveillance programs.

Question: How do these programs compare to the Pennsylvania program?

Answer: Pennsylvania has a strong surveillance program for layers and those birds slaughtered within the State. Since surveillance requirements differ between States, it is difficult to compare the quality of individual programs.

Question: Which States do not list avian influenza as a reportable disease?

Answer: All States list AI with pathogenic symptoms as a reportable disease. In addition, States send suspicious AI samples to USDA's National Veterinary Services Laboratories which serve as the National Reference Laboratory for avian influenza.

Question: In the absence of reporting requirements for this disease and adequate flock surveillance programs, how can this devastating disease ever be eradicated or even controlled?

Answer: We believe that AI can be eradicated from the commercial poultry industry if each State and its poultry industry work together to keep the States' poultry free of the disease. This can be accomplished through improved biosecurity practices by industry and active State surveillance. The Federal Government stands ready to assist State and industry with epidemiological, diagnostic, and technical assistance.

Question: When a case of avian influenza is reported to USDA, what actions are taken to notify other states?

Answer: When a case of AI is reported to USDA, we immediately notify our Area-Veterinarians-in-Charge. The AVIC's then contact State officials. When this occurs, USDA will provide epidemiological, diagnostic, and technical assistance to aid in the investigation.

Question: Is there a central avian influenza information clearinghouse in USDA?

Answer: The Animal Disease Detection Staff of APHIS serves as the central clearinghouse for information on lethal AI. APHIS has put together a AI eradication guide which outlines disease eradication and control procedures. In addition, the staff meets with and maintains telephone contact with State and industry officials concerning the disease, and issues periodic new bulletins on the current AI outbreak.

Question: I am informed that avian influenza is an ongoing problem in Minnesota and California. What is USDA doing to address this problem?

Answer: Nonpathogenic AI frequently occurs in turkeys in Minnesota and California as a result of contact with wild waterfowl. This should not pose a threat to poultry since AI does not readily spread from turkeys to other poultry and the disease is controlled by vaccination. USDA assists States by providing laboratory identification for virus type and pathogenicity.

Question: Does USDA have any educational programs especially for foreign buyers to counteract the negative impact of such disease outbreaks on the U.S. export market?

Answer: We do not have a formal educational program for foreign buyers. However, the APHIS Import-Export staff and APHIS international programs officials are in daily contact with officials of foreign Departments of Agriculture concerning AI and its impact on poultry import and export requirements. Through this interaction, foreign countries receive accurate information on the disease and this should modify the negative impact on U.S. exports.

Question: What future actions do you feel are needed at both the Federal and state level to eradicate this disease?

Answer: The key to eliminating AI from the poultry industry is disease prevention through improved biosecurity by industry. AI is passed to poultry through contact with wild waterfowl and then spread from one operation to another through live birds and virus-laden feces in conveyances such as crates, coops, and egg flats. Industry needs to separate poultry from wild waterfowl and follow stringent cleaning and disinfection procedures for premises and conveyances to avoid spread.

States need to assist in this effort by supplying information on biosecurity to industry, developing regulations or industry standards for biosecurity, providing basic laboratory support, and surveying for and eradicating infected flocks. The Federal Government should disseminate information on biosecurity to States and industry, and provide epidemiological, diagnostic, and laboratory support to States.

Question: In the event that this minor AI outbreak is not contained and bird losses mount, what is the USDA contingency plan of action?

Answer: The Department has developed several alternative contingency plans to deal with the outbreak, including one for a major epidemic that would require aggressive Federal action. The plans range from the present level of activity to possible declaration of emergency with quarantines of affected States. Federal activities may include any or all of the following, depending upon the severity of the outbreak: establishing or enhancing education programs on biosecurity; surveillance of various segments of the industry; establishing and enforcing Federal and State quarantines; coordinating and providing reporting, diagnostic, epidemiological, and laboratory procedures; depopulation of positive flocks; and assistance with cleaning and disinfecting positive premises and exposed equipment.

Question: What are the criteria for the Secretary of Agriculture to declare an "extraordinary emergency" for avian influenza?

Answer: The main criteria for declaring an extraordinary emergency is that the affected States are not taking adequate measures to control AI and the disease is threatening the poultry industry of the United States. Typically, a State will request the Federal Government declare an extraordinary emergency after it has exhausted its available resources or after some type of court action by producers has limited the States' ability to control the disease.

Question: Are these criteria fixed for all cases or do they change based on circumstances?

Answer: The criteria are basically the same in all circumstances: the disease threatens the poultry industry of the United States and affected States cannot take adequate measures to prevent disease spread.

Question: In the event of the declaration of an "extraordinary emergency," will the necessary funds for indemnification come from the Commodity Credit Corporation?

Answer: Given the present efforts to reduce Federal outlays, the Department will make every effort to minimize the use of CCC funds. Clearly, the States and unaffected parts of the industry at risk need to assume their full shares of the financial burden before the Federal Government makes funds available."

Given the current budget climate, finding additional sources of funding would be difficult. The Gramm-Rudman-Hollings sequestration is going to cut $13 million from 1986 APHIS funding. We could consider a supplemental appropriation, but since the Gramm-Rudman-Hollings Act there has been great reluctance to approve supplementals.

Question: In the 1983/1984 outbreak the Office of Management and Budget was involved in securing necessary funding. Would USDA again have to ask OMB for permission to spend CCC funds?

Answer: USDA would have to request OMB permission for the use of CCC funds.

Question: Do you have any indications that OMB might not approve such a request for indemnification funds from CCC?

Answer: Recent indications are that OMB would prefer to minimize the use of CCC funds.

Question: In the absence of federal funding for farmer indemnification, what course of action would USDA use to stop the spread of avian influenza?

Answer: We believe the containment of the current outbreak can be accomplished with improved biosecurity and a continued cooperative State, industry, and Federal effort with the Federal Government providing technical advice on cleaning and disinfecting procedures, and epidemiological, diagnostic, and laboratory support. We are hopeful that this effort will stop the outbreak and no additional actions will be necessary.

Additional Federal involvement will depend upon the severity of the outbreak and available resources. We could take a variety of actions short of Federal indemnification, such as surveillance of various segments of the industry, establishing or enhancing education programs on biosecurity, and establishing and enforcing Federal and State quarantines.

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

Question: What steps has the Department taken at this point to deal with this new outbreak of avian influenza in the Middle Atlantic region?

Answer: The Department is supporting the affected States of New Jersey, New York, Massachusetts, and Pennsylvania by providing diagnostic, epidemiology, advice on cleaning and disinfection of premises, and laboratory services as requested. We are working closely with the States, industry, and the Avian-Influenza Technical Collaborators.

Question: Have you assigned any additional personnel to the affected States?

Answer: Yes, we have assigned 19 field specialists to cover the avian influenza outbreak.

Question: How many have you assigned to New Jersey?

Answer: Two additional veterinary epidemiologists have been assigned to New Jersey.

Question: Do you plan to allocate any additional resources to my State, if the problem continues to grow?

Answer: Authorities in New Jersey have been assured that further epidemiology and diagnostic assistance will be provided as needed.

Question: Does the Department have a contingency plan in place if this outbreak should develop into a full-blown epidemic?

Answer: The Department has developed several alternative contingency plans to deal with the outbreak, including one for a full-blown epidemic that would require aggressive Federal action. The plans range from the present level of activity to possible declaration of emergency with quarantines of affected States. Federal activities may include any or all of the following, depending upon the severity of the outbreak: establishing or enhancing educational programs on biosecurity; surveillance of various segments of the industry; establishing and enforcing Federal and State quarantines; coordinating and providing reporting, diagnostic, epidemiological, and laboratory procedures; depopulation of positive flocks; and assistance with cleaning and disinfecting positive premises and exposed equipment.

Question: If so, what do you plan to do in New Jersey?

Answer: A coordinated, multi-state effort would be necessary if the outbreak should become an epidemic. New Jersey would be included with other affected States under an approved avian influenza action plan.

QUESTIONS SUBMITTED BY SENATOR HEINZ

Question: As I mentioned in my statement, I wrote Secretary Block last week regarding the prospect of USDA financial assistance for poultry farmers if the outbreak grows to such a level that Pennsylvania and other States cannot afford to indemnify farmers. Are you in a position to respond to my inquiry this morning, with the understanding, of course, that the money has not yet been requested?

Answer: We are hopeful that the quick action taken by the States and industry will preclude the need for a costly eradication program. Should that need occur, we would have to carefully weigh program and funding considerations.

Question: Do you know or suspect the cause of this outbreak and, if so, what steps would the USDA be prepared to take to ensure that such outbreaks would not recur?

Answer: We know that the current outbreak is connected to the commercial live poultry market with secondary spread via service traffic to larger commercial operations. However, it has not been possible to trace the outbreak to a particular flock or premise. To help determine the source of the infection and help prevent future outbreaks, USDA is currently doing epidemiological tracing and conducting a study of the commercial live poultry industry. We will also encourage States to enforce regulations that require the cleaning and disinfecting of trucks, crates, coops, and other equipment exposed during transportation of poultry. Should this prove unsuccessful, we may need to establish Federal regulations on the interstate movement of these items.

SUBCOMMITTEE RECESS

Senator BUMPERS. The committee will stand in recess until reconvened by the chairman. Thank you again.

[Whereupon, at 11:40 a.m., Wednesday, February 5, the subcommittee was recessed, to reconvene at the call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

MONDAY, FEBRUARY 24, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:40 p.m., in room SD–124, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Abdnor, Mattingly, Burdick, and Sasser.

DEPARTMENT OF AGRICULTURE

COMMODITY CREDIT CORPORATION

STATEMENT OF DANIEL G. AMSTUTZ, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE

ACCOMPANIED BY:

- **DAVID HALL, DIRECTOR, BUDGET DIVISION, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE**
- **TOM VONGARLEM, ASSISTANT DEPUTY ADMINISTRATOR, STATE AND COUNTY OPERATIONS, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE**
- **TOM CONWAY, ASSOCIATE GENERAL COUNSEL, OFFICE OF GENERAL COUNSEL**
- **STEPHEN DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE**

OPENING REMARKS

Senator COCHRAN. The subcommittee will please come to order.

I want to welcome all of you to our hearing this afternoon on the supplemental budget request of the Commodity Credit Corporation. Recently, Congress passed an urgent supplemental in the amount of almost $1.5 billion for reimbursement of the Commodity Credit Corporation net realized losses. That was not the total amount requested by the administration. We understand that because of the statutory ceiling on outstanding obigations of $25 billion, additional reimbursement is needed for the Commodity Credit Corporation to continue the operation of its programs that are mandated by law in the farm bill and that mean so much to the income support system that underpins our agriculture production.

Some questions have come to my attention regarding the current estimates of the funding that will be needed by the Commodity Credit Corporation as a result of the 1986 sequestering order and as a result of provisions of the 1985 farm bill.

We are hoping today to be able to hear the assessment and estimates of the administration with respect to these financial requirements, so that we can be sure to try to help other Senators and other Members of Congress understand the importance of this supplemental appropriation request.

I appreciate very much our Under Secretary for International Affairs and Commodity Programs of the Department of Agriculture, Daniel Amstutz, being here this afternoon. He has associates and colleagues with him from the Department of Agriculture, whom I will request that he introduce to the subcommittee.

Secretary Amstutz, welcome. Thank you very much for being here to help us better understand the need for this funding that has been requested. You may proceed with any comments that you may have at this point and introduce those who are with you.

INTRODUCTION OF ASSOCIATES

Mr. AMSTUTZ. Thank you, Mr. Chairman.

Starting on my left is Dave Hall; next to him, Tom VonGarlem. Dave and Tom are with the Agricultural Stabilization and Conservation Service [ASCS]. To my immediate right is Steve Dewhurst, with our central budget office, whom you all know, I am sure, and Tom Conway from our General Counsel's Office.

Mr. Chairman and members of the committee, I am here today to discuss the status of the Commodity Credit Corporation's borrowing authority and our proposed supplemental request for a permanent, indefinite appropriation to reimburse the Corporation's losses. The supplemental request is included in the President's fiscal 1987 budget, and $7.95 billion in appropriations to reimburse CCC directly from Treasury were estimated to be needed for the balance of fiscal 1986.

As you know, Mr. Chairman, the supplemental was transmitted to Congress in advance of the budget because CCC was again nearing depletion of its $25 billion borrowing limitation and subsequently ceased operations for several days in early February. Congress has since appropriated $1.493 billion of our request via a current, definite appropriation, an amount which should be sufficient for most of February. Although supply/demand estimates have not been updated, recent developments show the total estimated need to be $8.85 billion, an increase of $900 million over the original estimate.

This increase is due to program announcements made after preparation of the President's budget which increased 1986-crop advance deficiency payments by $650 million; and an additional $250 million will be needed for FCIC payments to indemnify insured producers. The latter increase relates to the authority in the Food Security Act of 1985 allowing CCC funds to be transferred to the Federal Crop Insurance Corporation.

CCC FUNDING MECHANISM

Before responding to your questions, Mr. Chairman, I would like to offer some observations regarding the CCC's borrowing authority mechanism and its cash-short position.

First, the CCC revolving fund only revolves to the extent that its cash outlays for loans and commodity purchases are recycled in the form of loan repayments and related interest payments to CCC, and through sales of inventories.

The Corporation's other cash outlays for deficiency and diversion payments, commercial and producer storage, transportation and processing, Treasury interest on CCC borrowings, and other activities, have no potential for receipts, and thus do not revolve.

These aforementioned outlays are therefore nonrecoverable and, together with eventual losses on inventory dispositions, constitute the Corporation's realized losses. It can readily be seen that without restoration of these losses through appropriations, CCC would have no means to repay Treasury for the borrowings that originally financed these nonrecoverable outlays.

As you know, Mr. Chairman, appropriations to CCC are used to repay outstanding Treasury borrowings, thus restoring borrowing authority available within the current $25 billion ceiling.

Even though CCC's nonrecoverable outlays do not revolve, they do not tie up borrowing authority for extended periods, since the Congress has kept the Corporation current with regard to unreimbursed losses. In fact, in recent years, the appropriations have been for anticipated losses due to the poor cash flow of the Corporation's assets. The problem, then, is not within the nonrevolving portion of CCC outlays, but lies within the truly revolving portion: outlays for loans and commodity inventory acquisitions. Simply put, what is supposed to revolve doesn't. Let me expand upon this.

LEVEL OF CCC COMMODITY LOANS AND INVENTORIES

In fiscal 1977, CCC borrowing authority invested in loans and inventories totaled $3.994 billion at September 30. This increased to $6.386 billion by fiscal 1980 and further escalated to $15.527 billion by the end of fiscal 1982. By the end of fiscal 1985, CCC borrowing authority invested in loans and inventories stood at $19.154 billion. We estimate that the fiscal 1986 yearend figures will be about $26.05 billion, with peak investment as high as $32.595 billion before loan repayments and sales receipts later this year bring the level down to the yearend estimate. We also estimate similar yearend levels for fiscal 1987, about $24.075 billion.

Mr. Chairman, these numbers are striking, numbers which do not fit within a $25 billion ceiling established in 1978.

The buildup in commodity loans and inventories, which has encumbered increasing portions of total available borrowing authority, clearly demonstrates that loan and purchase outlays are not revolving, on balance. If they were, average investment would decline or stabilize at much lower levels. Using the yearend fiscal 1986 and fiscal 1987 figures, only a net of $2 billion will have been recycled from the $26.05 billion available.

There are several major reasons for the increasing levels of loans and inventories since 1977: Loan maturities have been legislatively extended from 9 months to up to 5 years with implementation of grain reserve loans in 1977.

Loan and purchase rates for various commodities have increased from those in effect for the 1977 crops. Of course, the 1985 act has changed this somewhat.

Although significant quantities of CCC inventory have been moved into domestic and export channels, such dispositions have not kept pace in recent years with new purchases and forfeitures of producer loans. In addition, there are economic, legislative, and other restrictions on sales of CCC inventories.

With current pressures on market prices, 1985-crop loans will tend to move into the reserve program or be forfeited rather than repaid. There will be some abatement of this, Mr. Chairman, with our 1985 farm program operations.

CCC PAYMENTS FOR EXPORT GUARANTEE CLAIMS

There is one other problem area with respect to the encumbrance of CCC borrowing authority, and this relates to the CCC Export Guarantee Program. When CCC makes cash payments to U.S. banks or assignees for default claims, it establishes a receivable. Such receivables are projected to increase from the $1.671 billion outstanding at September 30, 1985. These receivables are expected to tie up borrowing authority for an indefinite period since some reschedulings are for terms of 10 years.

CCC FUNDING LEVEL OUTLOOK

I have attempted to describe how the chronic cash-short position of CCC developed and where the borrowing authority is tied up. We have been continually at or near the $25 billion ceiling for the last several years in terms of seasonal, or peak, use.

We expect this situation to continue in the absence of a higher ceiling. What all this means, Mr. Chairman, is that when CCC is always at or near the legal outstanding borrowing limit, its annual cash appropriation needs will always approximate its annual outlay estimates.

For example, this year, Congress has appropriated $14.6 billion so far, and our additional request of $7.4 billion in permanent, indefinite authority is needed so that CCC may finance total fiscal 1986 required program payments of $21 billion and a small operating margin for contingencies.

The President's budget for fiscal 1987 also requests permanent, indefinite authority, and $16.8 billion is estimated to be appropriated, which, again, approximates the level of fiscal 1987 outlays.

To complete my observations, I wish to note the historical growth of CCC net outlays, which, of course, are financed by available borrowing authority. Chart 3 in the packet of material you have depicts the increased net spending since fiscal 1975, and table 1 illustrates that gross outlays, before application of program receipts, have accelerated proportionately and indicate the seasonal fund demands on the Corporation. The 1981 and 1985 farm bills, authorizing legislation, and earlier legislation dictate the level of obligation and spending for the commodity and price support activities.

Only changes in the authorizing legislation can alter the levels of spending for these programs, not changes in the amount of appropriation to reimburse the Corporation for operating losses. Altering the amount of reimbursement for actual and anticipated losses would only delay the payments of amounts due and payable to farmers under the commodity and price support programs.

PROPOSED FINANCING MECHANISMS

Due to these circumstances, we have requested the Congress to provide permanent, indefinite authority for the Corporation to finance its program needs as they occur. Under such a provision, the CCC could go directly to the U.S. Treasury to replenish the operating losses and thereby continually have the maximum possible capital available within the $25 billion borrowing limit.

To date, the Congress has not approved the permanent, indefinite authority as a means of more orderly financing for the Corporation. An important additional part of solving the CCC financing problem would be to increase the borrowing limit to a level high enough to accommodate the peak levels of outstanding loans and inventories, and for operating costs for the current year.

With the borrowing limit at a sufficiently higher level, the administration and Congress could return to the more orderly process of annually requesting and appropriating reimbursement for operating losses incurred by the Corporation.

The current $25 billion borrowing limit is inadequate to allow this orderly, annual process. Because of this, we are experiencing the need to frequently request reimbursement, not only of past losses incurred, but of losses anticipated in the future. Congress, in turn, has had to frequently divert its attention from many other important national issues to focus on the issue of financing CCC in order to avoid a shutdown of CCC operations.

This has recently resulted in disruption of schedules for congressional deliberations; delay in CCC receiving essential financing; disruption and shutdown of CCC operations; and the resulting delay in payments due to farmers participating in these programs.

PREPARED STATEMENT

Mr. Chairman, that concludes my prepared remarks. I will be happy to answer your questions.

Senator COCHRAN. Thanks very much, Mr. Secretary.

[The statement of Mr. Amstutz follows:]

STATEMENT OF DANIEL AMSTUTZ

Mr. Chairman and members of the Committee, I am here today to discuss the status of Commodity Credit Corporation's borrowing authority and our proposed supplemental request for a permanent, indefinite appropriation to reimburse the Corporation's losses. The supplemental request is included in the President's FY 1987 Budget, and $7.950 billion in appropriations to reimburse CCC directly from Treasury were estimated to be needed for the balance of FY 1986.

As you know, Mr. Chairman, the supplemental was transmitted to Congress in advance of the Budget because CCC was again nearing depletion of its $25 billion borrowing limitation, and subsequently ceased operations for several days in early February. Congress has since appropriated $1.493 billion of our request via a current, definite appropriation, an amount which should be sufficient for most of February. Although supply demand estimates have not been updated, recent developments show the total estimated need to be $8.850 billion, an increase of $900 million over the original estimate. This increase is due to program announcements made after preparation of the President's Budget, which increased 1986 crop advance deficiency payments by $650 million, and an additional $250 million for FCIC payments to indemnify insured producers will be needed. The latter increase relates to the authority in the Food Security Act of 1985, allowing CCC funds to be transferred to FCIC.

Before responding to your questions, I would like to offer some observations regarding the CCC's borrowing authority mechanism and its chronic cash-short position.

First, the CCC revolving fund only "revolves" to the extent that its cash outlays for loans and commodity purchases are recycled in the form of loan repayments and related interest payments to CCC, and through sales of inventories. The Corporation's other cash outlays for deficiency and diversion payments, commerical and producer storage, transportation and processing, Treasury interest on CCC borrowings, and other activities have no potential for receipts, and thus do not "revolve". These aforementioned outlays are therefore nonrecoverable, and together with eventual losses on inventory dispositions, constitute the Corporation's realized losses. It can readily be seen that without restoration of these losses through appropriations, CCC would have no means to repay Treasury for the borrowings that originally financed these nonrecoverable outlays. As you know, Mr. Chairman, appropriations to CCC are used to repay outstanding Treasury borrowings, thus restoring borrowing authority available within the current $25 billion ceiling.

Even though the CCC's nonrecoverable outlays do not revolve, they do not tie up borrowing authority for extended periods since the Congress has kept the Corporation current with regard to unreimbursed losses -- in fact, in recent years the appropriations have been for anticipated losses due to the poor cash flow of the Corporation's assets. The problem then, is not within the non-revolving portion of CCC outlays, but lies within the truly revolving portion -- outlays for loans and commodity inventory acquisitions. Simply put, what is supposed to revolve doesn't. Let me expand upon this.

In FY 1977, CCC borrowing authority invested in loans and inventories totaled $3.994 billion at September 30. This increased to $6.386 billion by FY 1980, and further escalated to $15.527 billion by the end of FY 1982. By the end of fiscal year 1985, CCC borrowing authority invested in loans and inventories stood at $19.154 billion. We estimate that the FY 1986 yearend figure will be $26.050 billion, with peak investment as high as $32.595 billion before loan repayments and sales receipts later this year bring the level down to the yearend estimate. We also estimate similar yearend levels for FY 1987, about $24.075 billion. This chronology is shown on Chart 1. Mr. Chairman, these numbers are striking -- numbers which do not fit within a $25 billion ceiling established in 1978.

The buildup in commodity loans and inventories, which has encumbered increasing portions of total available borrowing authority, clearly demonstrates that loan and purchase outlays are not revolving, on balance. If they were, average investment would decline or stabilize at much lower levels. Using the yearend FY 1986 and FY 1987 figures, only a net of $2 billion will have been recycled from the $26.050 billion available. There are several major reasons for the increasing levels of loans and inventories since 1977:

- Loan maturities have been legislatively extended from nine months to up to five years with implementation of grain reserve loans in 1977.
- Loan and purchase rates for the various commodity programs have increased from those in effect for the 1977 crops.
- Although significant quantities of CCC inventory have been moved into domestic and export channels, such dispositions have not kept pace in recent years with new purchases and forfeitures of producer loans. In addition there are economic, legislative, and other restrictions on sales of CCC inventories.
- With current pressures on market prices, 1985 crop loans will tend to move into the reserve program or be forfeited, rather than repaid.

There is one other problem area with respect to the encumberance of CCC borrowing authority, and this relates to the CCC Export Guarantee Program. When CCC makes cash payments to U.S. banks or assignees for default claims, it establishes a receivable. Such receivables are projected to increase from the $1.671 billion outstanding at September 30, 1985. These receivables are expected to tie up borrowing authority for an indefinite period since some reschedulings are for terms of ten years.

I have attempted to describe how the chronic cash-short position of CCC developed and where the borrowing authority is tied up. We have been continually at or near the $25 billion ceiling for the last several years in terms of seasonal, or peak, use. This is shown on Chart 2, and we expect this situation to continue in the absence of a higher ceiling. What all this means, Mr. Chairman, and I want to be very clear on this, is that when CCC is always at or near the legal outstanding borrowing limit, its annual cash appropriation needs will always approximate its annual outlay estimates. For example, this year Congress has appropriated $14.6 billion so far, and our additional request of $7.4 billion in permanent indefinite authority is needed so that CCC may finance total FY 1986 required program payments of $21.0 billion, and a small operating margin for contingencies. The President's Budget for FY 1987 also requests permanent indefinite authority and $16.8 billion is estimated to be appropriated, which, again, approximates the level of FY 1987 outlays.

To complete my observations, I wish to note the historical growth of CCC net outlays, which of course, are financed by available borrowing authority. Chart 3 depicts this increased net spending since FY 1975, and Table 1 also illustrates that gross outlays, before application of program receipts, have accelerated proportionately and indicate the seasonal fund demands on the Corporation. The 1981 and 1985 Farm Bills -- authorizing legislation -- and earlier legislation dictate the level of obligation and spending for the commodity and price support activities. Only changes in the authorizing legislation can alter the levels of spending for these programs, not changes in the amount of appropriation to reimburse the Corporation for operating losses. Altering the amount of reimbursement for actual and anticipated losses would only delay the payments of amounts due and payable to farmers under the commodity and price support programs.

Due to these circumstances, we have requested the Congress to provide permanent indefinite authority for the Corporation to finance its program needs as they occur. Under such a provision the CCC could go direct to the U.S. Treasury to replenish the operating losses and thereby continually have the maximum possible capital available within the $25 billion borrowing limit.

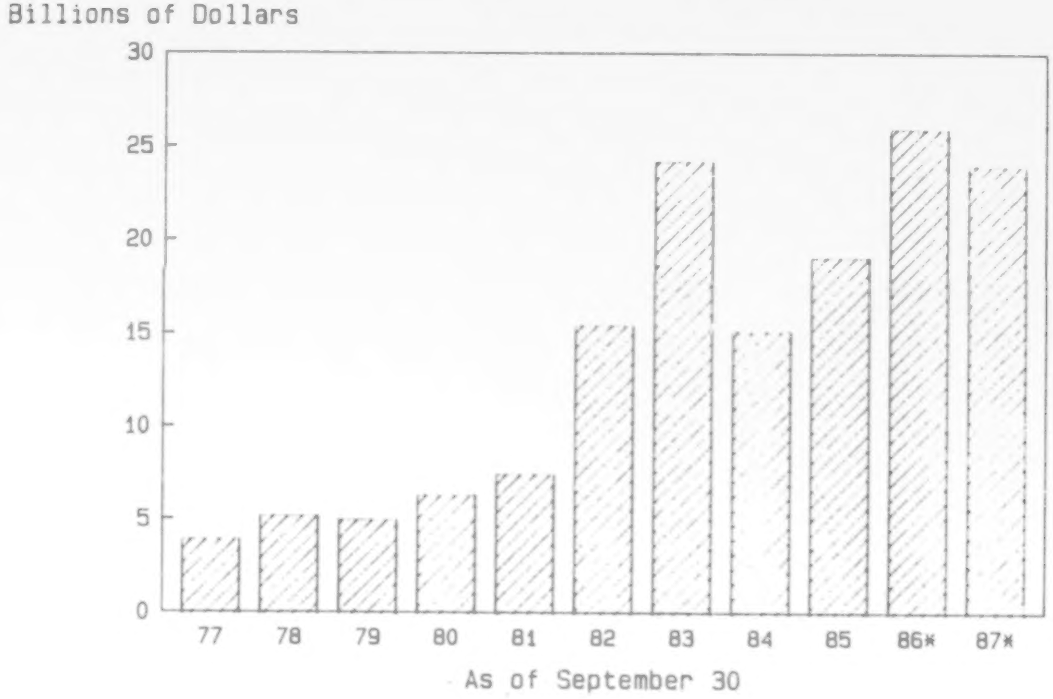
To date the Congress has not approved the permanent, indefinite authority as a means of more orderly financing for the Corporation. An important additional part of solving the CCC financing problem would be to increase the borrowing limit to a level high enough to accomodate the peak levels of outstanding loans and inventories, and for operating costs for the current year. With the borrowing limit at a sufficiently higher level, the Administration and Congress could return to the more orderly process of annually requesting and appropriating reimbursement for operating losses incurred by the Corporation.

The current $25 billion borrowing limit is inadequate to allow this orderly, annual process. Because of this, we are experiencing the need to frequently request reimbursement, not only of past losses incurred but of losses anticipated in the future. Congress, in turn, has had to frequently divert its attention from many other important national issues to focus on the issue of financing CCC in order to avoid a shut-down of CCC operations. This has recently resulted in disruption of schedules for Congressional deliberations, delay in CCC receiving essential financing, disruption and shut-down of CCC operations, and the resulting delay in payments due to farmers participating in these programs.

Mr. Chairman, this concludes my prepared remarks. I will be happy to answer any questions.

Chart 1

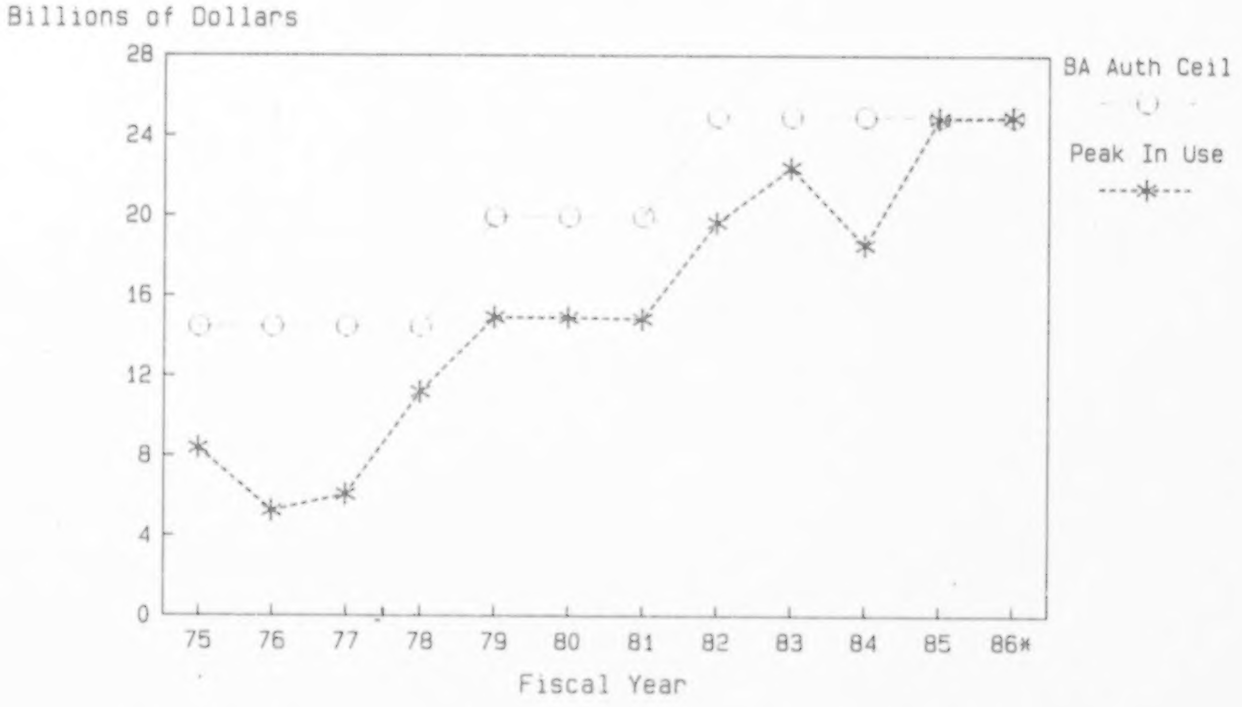
CCC INVESTMENT IN LOANS AND INVENTORIES
FY 1977 - FY 1987



* Estimated

Chart 2

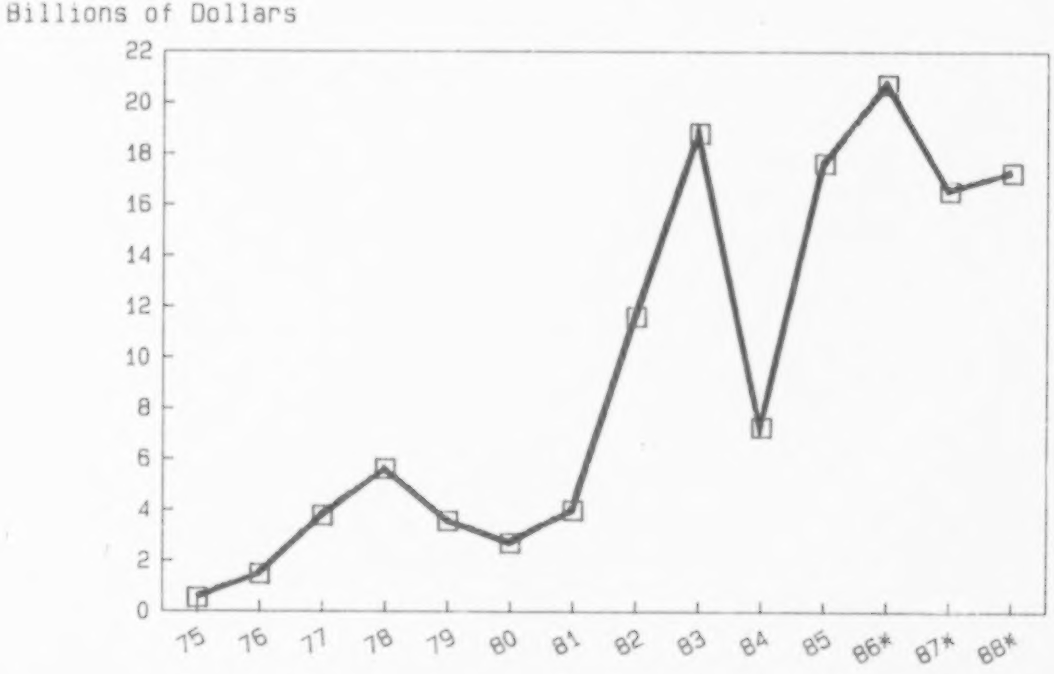
BORROWING AUTHORITY IN USE
FY 1975 - FY 1986



* Estimated

Chart 3

CCC NET EXPENDITURES
FY 1975 - FY 1988



* Estimated

Table 1

COMMODITY CREDIT CORPORATION

Average Gross and Net Outlays
FY 1973 - FY 1987
(In 5-Year Averages)

(millions of dollars)

	FY 1973 - 1977	FY 1978 - 1982	FY 1983 - 1987*
Average Gross Outlays	$5,069.7	$12,281.1	$24,383.7
Average Net Outlays	$2,132.9	$5,541.6	$16,241.4

*FY 1986 and FY 1987 estimated.

NEED FOR CONTINUITY IN CCC FUNDING

Senator COCHRAN. Last year when we took up the appropriations bill in this subcommittee, we approved a current, indefinite appropriation, so that we would not impose a ceiling that would inhibit the orderly operation of the Commodity Credit Corporation's fund.

Unfortunately, that was not acceptable to the other body, and therefore, it was not made a part of our appropriations bill. I don't know whether we should make another run at that this year in that fashion or approach it as you suggested, with an alternative which would be to increase the ceiling. I am not sure it comes under the jurisdiction of this committee. I think it may be a matter for the authorizing committee to consider.

But I think you are right; it is unfortunate that we have this stopgap process going on here where you have to come up with a supplemental appropriation or with a request that the borrowing authority be increased, because it puts a degree of uncertainty in the administration of our farm programs, and that is what we don't need.

We need certainty. Farmers need to be able to know well enough in the future what the programs are going to be; that there is a funding level sufficient to make the operation of the program an orderly one so that there are not these unnecessary news items, which are carrying the truth of the matter, and that is, that the Commodity Credit Corporation is out of money. That is startling to people out in the countryside, but here we are; it is true again.

I am hopeful that your testimony here today and this hearing will help focus attention on the fact that reform by the Congress is needed in the Commodity Credit Corporation programs, and that action needs to be taken by the Congress to make this a more workable and predictable program.

EFFECT OF 1986 SEQUESTRATION ON CCC

Let me ask you what effect, in your judgment, the March 1 sequestration order has on CCC. Is there an impact, and if so, what is it?

Mr. DEWHURST. Mr. Chairman, the sequestering order requires the Department to save $823 million in CCC expenditures, those to be saved from our 1986-crop programs. The figures which you have before you, for which we need capital, are net, after the Gramm-Rudman reduction. These are still the amounts of money we would spend, even after Gramm-Rudman is implemented this year.

ASCS SALARIES AND EXPENSES

Mr. AMSTUTZ. There is another element that relates to the management of CCC that is very much a part of the request we have before you, Mr. Chairman. I think the amount is $71.6 million that is needed literally for the operation of our network of offices that is also encompassed in this request. Needless to say, in carrying out the new farm bill, we have to keep those offices staffed and running.

Senator COCHRAN. These are the people who will actually be processing the plans and approving the programs?

Mr. AMSTUTZ. That is right.

Senator COCHRAN. Or administering the programs at the local level?

Mr. AMSTUTZ. That is right.

Senator COCHRAN. You know, that is interesting, because last year when we approved the appropriations bill, we approved an appropriation amount that was $71 million over what OMB wanted us to approve, and they described it as an objectionable expense—no, an objectionable provision. We went on and approved it anyway, and now, the administration is requesting a supplemental of $72 million more than that.

I wonder, what is the reason for that inconsistency, or is it an inconsistency?

Mr. DEWHURST. The President's 1986 budget had assumed some reductions in salaries and expenses in ASCS to be achieved through a system of user fees, and also some reduction because of the proposal to eliminate some of the conservation programs.

You see, when the Congress put back the conservation programs and then didn't follow through on the user fees, the money was restored. OMB objected to it, because they objected to the basic program decisions.

This is different; we start from that base, but we have to run the programs under the new farm bill now, and we need this additional amount to keep the offices open.

FARM PLAN APPROVAL

Senator COCHRAN. Some people are worrying, in my State, about whether or not they are going to have time, given the existing staffing levels and the constraints of a March 1 deadline, for those who are employed in the local ASCS offices to process these plans and take action on them so that the deadlines can be met.

What is your reaction to that?

Mr. AMSTUTZ. Mr. Chairman, we are sensitive to these concerns, and they are understandable with this mammoth new farm bill that is to be administered. But as it relates to these so-called producer farm plans, it is our judgment that there is no problem in that area. The payment limitation regulations have not changed, themselves. Operations such as partnerships, corporations, et cetera, should already be established, even though the programs themselves were announced later than we would like and later than usual.

We have given some thought to it, Mr. Chairman, especially in recent days when, if I may say, you raised the question to me briefly in a telephone conversation, and we readdressed it. Our judgment is that it should be left as it is.

Senator COCHRAN. There are some who are concerned that if the plan is disapproved, if the farmer's application or a person's plan that is submitted to ASCS is disapproved and the deadline of March 1 has passed, that they ought to have an opportunity to revise their plan and resubmit it for reconsideration up to, say, April 1; not to deny a person, a producer, a right to try to amend the plan to make it more susceptible to approval. I, frankly, feel that they are right about that. I wonder if you could tell us if there are any specific reasons why this could not be done. It seems to me that that is not much to ask.

Mr. AMSTUTZ. I should perhaps have Mr. VonGarlem speak to some of these specifics, but I will make two comments. First, that even given that scenario, Mr. Chairman, the producer's farm plan that had been established and in effect—the approved farm plan that had previously been established—would still be operable. So it wouldn't be that we were leaving that producer without a farm plan, assuming that producer had already filed one.

Beyond that, a reason for the deadlines on a number of things is so staff can get on to the next order of business. Signup will begin March 3, and we would really like some of the more housekeeping-type of details to be established and set before then so that these human resources that are always limited can work in the signup area.

Senator COCHRAN. Mr. VonGarlem?

Mr. VONGARLEM. Thank you, Mr. Chairman.

The only other thing I would want to add is that you cannot increase the number of persons in a farming operation after March 1; the farmer still can submit the plan, and a plan must be submitted before payments are received, but you cannot increase the numbers of persons on that farm after March 1.

Senator COCHRAN. I have some other questions, but I am going to defer asking them until other Senators who are here can have a chance to ask their questions or make any comments that they choose to make.

PREPARED STATEMENT

I might say at this point that Senator Abdnor from South Dakota was here but has another meeting to discuss another farm problem in his State. He has asked that a statement by him be included in the record and any questions that he has be submitted in writing. I hope you will be able to respond to him in a timely fashion. Thank you for that.

[The statement of Senator Abdnor follows:]

STATEMENT OF SENATOR ABDNOR

Mr. Chairman, members of the committee, I am pleased to be here and have the opportunity to examine a problem with the Commodity Credit Corporation—a recurring lack of adequate funding. Agriculture is a highly variable industry; both yields and prices are highly volatile. The result is that it is almost impossible to gauge what CCC funding needs will be for any given year.

To date, the fiscal year 1986 allocation for the Commodity Credit Corporation has been $14.6 billion. I understand that an additional $7.4 billion is needed. The recurring need for supplemental spending authority has, time and again, placed farmers in difficult situations. Just a few short weeks ago the Emergency Feed Program, desperately needed and late in arriving, was put on hold because CCC funding had run out. Last December, thousands of farmers waited weeks for their deficiency payments all because another emergency supplemental was needed.

I can't help but wonder if the time hasn't come for us to look for an alternative to the present system of funding the Commodity Credit Corporation. However, any changes are long-term and I do know that we have an urgent need to adequately fund the CCC for the remainder of fiscal year 1986. Farmers all over South Dakota will be signing up for the farm program in the next few weeks. If we don't provide the needed funds to the CCC, I foresee huge problems if farmers are not able to receive their advance deficiency payments because of inadequate funding.

Mr. Chairman, I wish to thank you for calling this meeting and I thank Mr. Amstutz and Mr. Hertz for attending in order to answer our questions and concerns.

LEVEL OF BORROWING AUTHORITY

Senator COCHRAN. Senator Burdick?

Senator BURDICK. Thank you, Mr. Chairman.

Mr. Secretary, you hint in your testimony of increasing the borrowing authority. If the authority were increased sufficiently, theoretically, you could go the entire year without needing supplementals, and we could reimburse you at the end of the year for the losses; is that correct?

Mr. AMSTUTZ. We offer that, Senator, as what we think is the second-best alternative. But indeed, we mention that.

Senator BURDICK. All right. To get this increased authority, can anybody else do it besides the appropriations process?

Mr. AMSTUTZ. I think not, but I will let the experts answer that.

Mr. DEWHURST. Questions of increasing the borrowing authority, Senator, have generally been handled by the Agriculture Committees.

Senator BURDICK. Not by appropriations?

Mr. DEWHURST. Not by appropriations. In fairness, though, the matter was discussed with staff of those committees when the farm bill was being developed last fall and winter, and there was no great interest in those committees in increasing the borrowing authority; and so here we sit today.

Senator BURDICK. If we were to increase that authority, what level would you recommend to be sufficient for the next 5 years or over the life of the current farm bill?

Mr. AMSTUTZ. I guess our best judgment now would be to move it up to $40 billion.

FACTORS INCREASING 1986 FUNDING NEEDS

Senator BURDICK. You also indicate that your estimate for the amount of funding that will be needed this year has increased because of recent developments. What are those recent developments?

Mr. AMSTUTZ. Senator, we are paying some deficiency payments in advance, which puts them out in this fiscal year instead of next. In addition, under authority given us in the 1985 farm bill, some of the financing requirements of the Federal Crop Insurance Corporation will be covered via the Commodity Credit Corporation. That is another $250 million. So the advance deficiency payments and the Federal Crop Insurance financing add roughly $900 million to our needs for this year.

Senator BURDICK. What are further developments that could be anticipated that would result in yet higher estimates for the necessary funding for 1986?

Mr. AMSTUTZ. One thing, Senator, that is very true, and which makes estimating our money needs very difficult, is that in a real sense, our commodity programs are open-ended. Farmers are eligible for loan payments based on their production that they desire to put under the loan. So it is a fact that weather plays a major role in determining how much grain or other commodities comes under the loan in any one year. So very, very good production could increase our outlays.

EFFECT OF CHANGE IN YIELD DETERMINATION

Senator BURDICK. As you know, both the House and the Senate are considering changes in the method of determining yields under the farm bill. If that legislation is adopted, what will the resulting costs in that change be, if you know?

Mr. AMSTUTZ. Senator Burdick, there is a meeting going on right now discussing this, or I think it is going on right now.

If the measure that is being advanced in the House were adopted, and that was your question, was it not, sir?

Senator BURDICK. If you use the 5 years, of course.

Mr. AMSTUTZ. Yes; the measure that is most prevalently talked about in the House would increase our outlays by $850 million or thereabouts. We are hoping, Senator, that there can be some compromise in this particular area.

Senator BURDICK. How many years would that last figure be for?

Mr. AMSTUTZ. It is 3 years, 1986, 1987, and 1988.

Senator BURDICK. It would be 3 years and not 5.

GRAMM-RUDMAN-HOLLINGS REDUCTIONS

I would like to discuss the impending Gramm-Rudman cuts as far as CCC is concerned. It appears to me that the cuts borne by the CCC have the most dramatic impact of any of the cuts on any other program. When you chop 4.3 percent off every check going to farmers from the CCC, this is taking money right out of the farmers' hands. It is not like saving some administrative money here and travel money there.

Would you agree that the farmers are the single group most hurt in this respect by the Gramm-Rudman bill?

Mr. AMSTUTZ. Senator, I have to first say that Gramm-Rudman-Hollings is law, and we have no alternative but to carry out the law.

I agree with you also that it is a cut into net profits, a cut off the top, so to speak, and I have responded to people and said, "Well, 4.3 percent on a deficiency payment is 8 cents a bushel," and markets vary 8 cents a bushel frequently in a week.

My response is, it is 8 cents off profit, and that is significant. We have no alternative, Senator, but to implement the law. It is our hope that the sequestering—I never can say that word, the sequestering, it comes out equestrian. [Laughter.]

But anyway, the reductions mandated by Gramm-Rudman are only a 1-year affair that will resolve the budget question for 1987, and there will be none of those cuts then.

Senator BURDICK. We won't know until about September 30, will we?

Mr. AMSTUTZ. I am not sure when we will know, Senator.

Senator BURDICK. We are not blaming you, of course. You are not blaming me, either. [Laughter.]

When deciding how these cuts were to be applied, did anyone consider targeting them to the larger farmer? I am thinking of a system that exempted the first increment of commodity loans and the first increment of deficiency payments, for example, from the cuts, and in order to offset that exemption, applying larger cuts to payments that are made over the initial increment.

Has that ever been thought of or discussed?

Mr. AMSTUTZ. Our judgment about it, Senator, is that the law really mandates that we just cut it across the board.

Senator BURDICK. I suppose the next question is also answered now. Do you have the authority to use that type of system?

Mr. AMSTUTZ. No.

Senator BURDICK. I didn't think so. How do the Gramm-Rudman cuts affect ASCS personnel and administration of the farm programs?

Mr. AMSTUTZ. Let me ask Mr. Dewhurst to respond to that.

Mr. DEWHURST. The staffing of the county offices is subject to the 4.3-percent cut under Gramm-Rudman. We have a supplemental before the Congress. When that supplemental is approved, the staffing of the county offices will be increased by about 2,400 staff-years. But that will still fall several hundred staff-years short of what our workload system says should be out there to carry out the farm programs. So we think they are going to be very tight on resources and people.

Mr. AMSTUTZ. Therefore, net, it means that we have to increase the productivity of our human resources employed throughout the system to carry out the farm bill.

Senator BURDICK. And if you don't?

Mr. AMSTUTZ. Well, we just have to do it, Senator. There can be no "if we don't." We just have to do it.

Senator BURDICK. With less horses around, you may not be able to do it.

Mr. AMSTUTZ. It is not easy, I agree.

Senator COCHRAN. Senator, can I go to Senator Mattingly and come back and make another round?

Senator Mattingly.

IN-KIND PAYMENTS

Senator MATTINGLY. Thank you, Mr. Chairman.

In reference to more horses, it depends on what kind of horses you have got, whether you are dealing with thoroughbreds, or draft horses, or donkeys. [Laughter.]

I was going to say jackasses, but I didn't make that point. I just really have one question.

As long as we have these surpluses in the CCC, which really are far in excess of the program needs, don't you think you ought to take every opportunity you can to substitute these payments and come out with the required cash outlays, and doesn't that really save money in the long run?

Mr. AMSTUTZ. Yes, Senator. There is no question but what you are right, and we will be using a lot of our inventory as the vehicle for payments this year. Incidentally—and I wish Senator Burdick was still here—that is one area where we do not have to effect the 4.3-percent Gramm-Rudman-Hollings cut. So where we use commodities as payment in lieu of cash, there will be no cut.

Now, there is a sensitivity involved about the use of commodities for payments, Senator. We have to be careful as to how much additional supply we put onto the market via that route. If we put too much on too quickly, we have the effect of literally recycling what is produced; we force more into the loan. So a degree of delicate handling is necessary.

But within that general confine, we will be using commodities in lieu of cash for payments this year; and my own judgment is that if we are up here a year from now and we look back to what happened, we will see the results of that.

Senator MATTINGLY. You mean the expanded use of the commodities?

Mr. AMSTUTZ. Yes; and the results of that in netting the dollars.

Senator MATTINGLY. I think it also has a positive impact on interest rates. If you have to go borrow the money from the Treasury that we don't have, that puts us further in deficit, it obviously keeps interest rates up, which is probably as detrimental as anything to agriculture, as has been in the past.

Mr. AMSTUTZ. I agree, Senator.

METHODS OF FUNDING CCC

Senator MATTINGLY. So you are talking about the ceiling. What is it now, $25 billion?

Mr. AMSTUTZ. $25 billion, which was established in 1978.

Senator MATTINGLY. What impact would that have if you change that?

Mr. AMSTUTZ. With a $40 billion ceiling, we wouldn't have to come up as often to request supplementals; we could come up for the more traditional role of asking for reimbursement of net realized losses.

The more sensible way to avoid numerous supplementals would be permanent, indefinite authority. In this day and age, there is something that is objectionable about raising the borrowing authority for any agency of Government. It implies more spending, not less spending. By having this permanent, indefinite authority, we don't have to change the borrowing authority ceiling, but it allows the Corporation to work fluidly.

Senator MATTINGLY. That is the same reason that while my children were growing up, I didn't give them a credit card.

That is all the questions I have, Mr. Chairman.

Senator COCHRAN. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman.

It seems that every year, we have at least one CCC supplemental, Mr. Chairman, as you note, and Mr. Secretary, as you note in your statement. The business of coming up here for a supplemental has become a very time-consuming process.

If the committee approves the proposed supplemental for a permanent, indefinite appropriation, as I understand you brought before us, will these annual supplemental requests become a thing of the past?

Mr. AMSTUTZ. That is right, Senator, we will just be coming up for appropriations to reimburse the Corporation for its losses realized the year before. I believe that is correct. Just a moment.

I was just told, Senator, that we wouldn't even come up here to recover our losses.

NEED FOR PENDING CCC SUPPLEMENTAL

Senator SASSER. I see. What would be the result if we did not approve the supplemental for fiscal year 1986?

Mr. AMSTUTZ. The result if you didn't give us some money?

Senator SASSER. That is correct.

Mr. AMSTUTZ. We would have to close down the Commodity Credit Corporation.

Senator SASSER. What would be the result of that? I want to get this in the record is the reason I am asking.

Mr. AMSTUTZ. We would not have funds to pay deficiency payments; we would not have funds to make loans to farmers participating in our programs; we would not have funds available for export credit guarantees, for the dairy whole-herd buy-out, to pay producers for storage payments, or for commercial storage payments; we would not be able to make wool payments, as mandated by the law, or to pay a number of other operating expenses that are financed from the CCC.

Senator SASSER. So if we did not approve a supplemental for fiscal year 1986, we would simply be visiting another agricultural disaster on top of what appears to be an agricultural disaster in certain areas of the farm economy now; would that be a fair assessment?

Mr. AMSTUTZ. There is no question, Senator, that if the appropriation was not approved, it would be a disaster.

Senator SASSER. Clearly, in my judgment, it should and ought to be approved.

Mr. Chairman, when do you anticipate taking this supplemental to the floor, if I might ask?

Senator COCHRAN. The leader has not indicated a definite time for us to take it up, but it would be my request of the leader that the earliest possible date and time be scheduled to consider it.

Senator SASSER. Good. Thank you, Mr. Chairman.

Thank you, Mr. Secretary.

DAIRY TERMINATION PROGRAM

Senator COCHRAN. Mr. Secretary, let me ask you, as you mentioned the whole-herd buy-out—and I know there are a lot of details and technicalities that the administrators have to work through, because this is a new program—but some of my constituents have expressed to me some concern about the current dairy herd termination—I think that is the technical name—that crossbred animals, those that have beef and dairy bloodlines, are being singled out and identified as unnecessary to the purchase program, so that the goal of reducing milk production doesn't include the crossbred animals, particularly if they are part of a beef herd cow/calf operation.

Can you, the ASCS people, tell us the extent to which beef-dairy crossbred animals are going to be involved or cannot be involved in this dairy herd termination program?

Mr. VONGARLEM. Mr. Chairman, we are interpreting a dairy animal as being any offspring from a dairy cow, and of course, that includes the crossbreds.

I think that clearly, crossbreds don't have a significant impact on dairy production, but by the same token, I don't believe carrying this interpretation would significantly impact on the effective operation of the Dairy Termination Program.

We recognize that a lot of dairymen breed their dairy cows to beef bulls because the offspring, then, go in and give better gains in feedlots, but we also are concerned that there are producers who do milk these cows. We are terribly concerned when we try to implement a national program that if you build in loopholes, then you are just asking for problems that don't currently exist. And we are very concerned about having producers amend their normal ways of doing business because of a loophole in the Dairy Termination Program.

Senator COCHRAN. We are understanding from some constituents that this policy, or this interpretation, is going to prevent many dairy producers from participating in that program. Do you have the same assessment of the situation?

Mr. VONGARLEM. No, Mr. Chairman. We agree that there probably will be some dairymen who may elect not to participate because they have some other significant interests, but clearly, the law requires a producer who participates in the termination program to forgo any interest in dairy cows or dairy production for the period of the contract, which we have interpreted to be 5 years.

We don't believe it is significant enough to impact on the goals of the program.

GRAIN STORAGE OUTLOOK

Senator COCHRAN. I wonder if you could discuss for us your plans concerning storage of grain forfeited to CCC from the 1985 loan program and the availability of storage for the 1986 crop, and what impact this is going to have on your need for CCC funding.

Mr. AMSTUTZ. As I indicated before, Mr. Chairman, some of the products in the 1985 loan pipeline will come out and get placed on the market in the process of carrying out the 1985 farm bill.

Preliminary figures I saw the other day indicate that at the peak period at harvest this coming fall, statistically, nationwide, available storage will be filled and that it will be an absolute, even balance.

Whenever you have that kind of a statistical situation, obviously, there are areas with a shortage of storage, as well as areas of surplus. It is our hope, as I have indicated before and in response to the question from Senator Mattingly, that considerable amounts of this inventory will be worked through the system and work its way into consumption, thereby alleviating a possible storage tightness. So at this juncture, we are not pessimistic about that being done and do not expect that storage will have any impact on CCC operations other than what has already been estimated.

IN-KIND ADVANCE DEFICIENCY PAYMENTS

Senator COCHRAN. There was some concern expressed to me recently about the use of in-kind payments for advanced deficiency payments—particularly, you were using cotton, and you were making that available to wheat and grain farmers—the fact that you were going to disrupt the market by bringing onto the market commodities that weren't expected to be put on the market and at a time when they weren't expected. This would cause some real financial losses to people who were holding inventory or planning to market their products based on traditional times, when new crop cotton was coming onto the market, and such as that.

Have you looked at that and tried to assess the impact and tried to prevent as much as possible any disruption of the market in those commodities because of that?

Mr. AMSTUTZ. Yes, Senator, and we have been sensitive to this in all commodity areas. I believe that the concerns that existed about this have been alleviated since we have come out with the details of our cotton program, and I would reckon that you have had no questions about that since then.

Senator COCHRAN. I haven't heard about it in the last week or so, but I was in the Philippines. It might be safer to go back there. [Laughter.]

Mr. AMSTUTZ. I am quite confident, Senator, that that question has been resolved in the minds of those who raised it.

Senator COCHRAN. That's good, because we did have some serious concerns, and we relayed those to you, and I appreciate the fact that you got it worked out.

USE OF CCC FUNDS FOR APHIS

There is one other problem that I want to bring up and ask you about. We received requests from Senators throughout the country for some funding for programs administered by the Animal and Plant Health Inspection Service.

I was just reading about flocks of turkeys in Pennsylvania having to be slaughtered because of avian flu. We have the citrus canker problem in Florida. In Idaho, Senator Symms and others have described the grasshopper problem out there, and some of these programs have been actually paid for by CCC or funds have been taken from the CCC account to pay for these on an emergency basis, where funds weren't otherwise available.

Are we faced with other such needs at this time, or are there plans to fund any of these activities now through the CCC? Are these costs included in any of your estimates?

Mr. AMSTUTZ. Senator, the most important thing I can say in this regard from the standpoint of clarity is that none of those types of spending possibilities have been included in the figures that we have presented here today.

Senator COCHRAN. Senator Burdick.

SUGAR PROGRAM

Senator BURDICK. It appears that the Gramm-Rudman cuts could work to actually cost the Government more money instead of saving. I am referring specifically to the Sugar Program. This program is to be operated at no cost to the Government. However, with the Gramm-Rudman cuts coming into play, if the sugar loan rate is reduced, it could mean the forfeiture of sugar to the Government which, up until now, has not happened.

As you pointed out in your testimony, these forfeitures of commodities are very costly to the Government. We do not get the loan back, and we take a loss when we dispose of the commodity, as well as while we are storing it. First of all, I think you agree that the intent of Gramm-Rudman is to reduce the Government's costs, not increase them.

Second, when the Gramm-Rudman cuts become effective, can the Sugar Program be run at no cost to the Government?

Mr. AMSTUTZ. The 1985 farm bill mandates that commencing in fiscal 1987, that the Sugar Program be run just that way, Senator. So it will have to be to fulfill the law.

Senator BURDICK. Then you are saying that in 1987 it will be a cost to the Government for running the program?

Mr. AMSTUTZ. No; I am saying that the law mandates that commencing in 1987, the Sugar Program be operated on a no-cost-to-the-Government basis.

Senator BURDICK. I was under the impression that the Sugar Program hasn't cost us any money in the last several years.

Mr. AMSTUTZ. Well, it is costing us some this year, Senator, in fiscal 1986 and in fiscal 1985.

Senator BURDICK. Will the administration take steps, then, to adjust the import quota in order to maintain the market stabilization price, or will it contemplate changing the market stabilizing price? Currently, it is $21.57 per hundredweight.

In other words, will there be any adjustment of the import quota because of this fact that you just testified to?

Mr. AMSTUTZ. Senator, in a very short time the administration will be making an announcement as to how it will implement the fiscal 1986 provisions of the sugar title of the farm bill.

If you will be understanding of me, I think the announcement should not come from me, sitting here, but in the regular process. It will be out in a very few days.

Senator BURDICK. You would rather not describe it now, then?

Mr. AMSTUTZ. I don't think it is seemly for me to do it, no. But I reckon that this week, during the course of this week, it will be announced.

PENDING FARM BILL AMENDMENTS

Senator BURDICK. Congress is still considering changes in the 1986 commodity programs. If the 92–50 underplanting provisions or the payment yield provisions, for example, are changed now or after the signup begins, how will the administration implement those changes?

Mr. AMSTUTZ. I think it is very important that I make one point: That if there are to be any additional changes in the 1985 farm bill, either in the yields area or in this 92–50 underplanting area, I really think it is essential that those changes be made this week.

Signup does begin next Monday, and it is enormously important for farmers at the first day of signup to know what the programs are.

The administration has worked with the Hill in addressing some of these questions. It is impossible to say what will happen during the course of this week, but again, I make the point that if a change is going to be made, it just really has to be made this week because of timing realities.

Senator BURDICK. That would apply to any change, wouldn't it?

Mr. AMSTUTZ. Yes, sir.

Senator BURDICK. If we wanted to correct that yield situation, we better act pretty fast?

Mr. AMSTUTZ. Yes, sir.

Senator BURDICK. Mr. Chairman, I think that is all I have. Thank you.

ASCS COUNTY OFFICE STAFFING

Senator COCHRAN. Let me ask you this question, Mr. Secretary, about staffing at the local level, to be sure I understand what you are telling me. If we come up with the $72 million supplemental appropriation for ASCS offices, do you think this is going to be sufficient to assure the timely processing of applications for persons and any other filings that have to be made during the signup process by farmers throughout the country?

Mr. AMSTUTZ. Yes, sir; we do. I don't take back what I said before, that because of the realities of Gramm-Rudman, we have to realize more human resource productivity. But we are confident it can all be done.

Senator COCHRAN. What I don't want to have happen is that we come up with a level of funding and then it turns out not to have been enough, and we see people who are not eligible for programs and who are not signed up simply because there weren't enough people there to process the applications. I don't want that to happen.

Mr. AMSTUTZ. I understand, and Senator, this person sitting on this end of the table doesn't want to see that happen, either.

CCC FUNDING FOR APHIS

Senator COCHRAN. Let me ask you one other question concerning the funding that I mentioned a while ago that may be requested by Senators, possibly even as a part of this supplemental, for some of these emergency activities such as citrus canker, avian influenza, gypsy moth, grasshoppers, and others. Senators are concerned—and some of them are members of this subcommittee—that there is not adequate funding available now. I know, for instance, in the Citrus Canker Program, the State of Florida has an obligation to come up with funds at the local level to help pay for some of this cost.

As I understand the administration, there has been no supplemental request that is a part of this CCC supplemental for those activities. Is that correct?

Mr. AMSTUTZ. That is correct, Senator.

Senator COCHRAN. OK. If we are confronted by some requests by Senators, we may not be able to include that in this supplemental, and it would be the position of the administration that those funds should not be included, that this should be just a CCC supplemental and supplemental for ASCS activity?

Mr. AMSTUTZ. According to the latest information available to me, yes.

Senator COCHRAN. I ask you that because we are getting these questions asked.

Mr. AMSTUTZ. I understand. That is why I was purposefully careful in my response.

POSSIBLE SUPPLEMENTAL PROVISIONS

Senator COCHRAN. I need to know what the plan is. We may have a separate problem when we get to the floor. I understand, too, the House is having some hearings on farm credit. We had some credit issues before this subcommittee earlier in the year, and there are some serious problems out there with respect to credit, and we all know that.

That could be a part of this supplemental, too, I guess, as it comes over from the House, but not wanting to anticipate what Congressman Whitten may do there with his committee, we will withhold any comment or judgment about it until we see what they approve.

EXPORT CREDIT PROGRAM

Anticipating that this may be the budget hearing for 1987 for CCC, let me ask a couple of questions about the 1987 request. There is a 5-percent origination fee contemplated in the 1987 budget for the Export Credit Program. Will an origination fee increase the actual interest rate for the first year of the loan, or can that fee be financed over the life of the loan?

Mr. AMSTUTZ. Current procedure is to finance it over the life of the loan. Under current procedure, that fee is considerably less than this 5 percent.

They always say it is a big mistake to anticipate a question, and I am just in the process of anticipating a question, and therefore, probably making a big mistake. But the tendency, I think, of the seller in a situation like this is to add it onto the price. It is not required, but I think that is the tendency.

USER FEES

Senator COCHRAN. What was the reasoning behind the withdrawal of the user fee proposal last year?

Mr. AMSTUTZ. Senator, I am just not sure. Can we do some research on that?

Senator COCHRAN. Sure, and you can give me that one in writing, if you would.

Mr. AMSTUTZ. All right.

[The information follows:]

USER FEES

The user fee proposal was withdrawn by the Department due to the need for both the Congress and Department policy officials to focus on developing the 1985 farm bill. However, a budget amendment reflecting this decision probably should have been provided to the Congress.

CONSERVATION RESERVE PROGRAM

Senator COCHRAN. We have a Conservation Reserve Program that is very ambitious. Some other conservation programs that are a part of our farm bill that was passed last year, including a conservation easement program, are going to be implemented for the first time.

Have you any estimates as to the actual cost of the Conservation Reserve to the CCC for this year and for fiscal year 1987?

Mr. AMSTUTZ. The only thing we put a number on in the budget for 1986 was the Federal Government's share of the cost of the conserving crop. I think there is more in 1987. I'll let Steve answer.

Mr. DEWHURST. The budget includes $190 million in 1986 for that program and $550 million in 1987, Senator. Those figures are built into the budget numbers you have before you.

Mr. AMSTUTZ. The $190 million is for the 1986 crop cover, and the $550 million——

Mr. DEWHURST. The $550 million includes some cost-sharing for 1987 crop cover costs and some money for the 1986 crop rent that will be paid on that land.

Senator COCHRAN. My recollection is when we were writing the farm bill, we wrote into the bill the authority for some of those funds to be paid out of CCC in 1986 and maybe 1987. I think both years.

Mr. DEWHURST. Both, yes, sir.

Senator COCHRAN. Which is why I was wondering what the impact of those provisions were on your ability to operate CCC and whether those numbers are cranked into these estimates, and they are, you are telling me.

Mr. DEWHURST. They are; yes, sir.

Mr. AMSTUTZ. On the rent, we do have the in-kind flexibility.

Senator COCHRAN. So instead of paying money, you may give surplus commodities.

Mr. AMSTUTZ. A certificate redeemable in the surplus commodity.

Senator COCHRAN. It is like money, we hope.

Mr. AMSTUTZ. In a sense, better than money. It is backed by something.

Senator COCHRAN. Better? All right. [Laughter.]

USE OF CCC FUNDS FOR FCIC

A point you made early in the testimony you presented was that some additional funding is going to be required in the supplemental because of the fact that we included in the farm bill the Federal Crop Insurance Corporation's authority to borrow funds from CCC, and I have to plead guilty that I am the one who offered that as an amendment. I did so because we were confronted with farmer problems out there where indemnity payments were held up, and there was a question about whether they would be forthcoming because of limits imposed by the Congress on the authority of FCIC to make those payments.

What effect do you foresee over time into fiscal year 1987, the first year of that provision? Do you have an estimate on the effect that might have on CCC funds?

Mr. DEWHURST. We have built into these numbers $250 million as the estimated financial needs of the Crop Insurance Corporation over the next year. Obviously, that now becomes part of the overall financial problem of the Commodity Credit Corporation.

Senator COCHRAN. So this supplemental request that we are receiving now includes $250 million.

Mr. AMSTUTZ. $250 million.

Mr. DEWHURST. $250 million.

Senator COCHRAN. $250 million, and that will carry us through the end of this fiscal year, 1986?

Mr. AMSTUTZ. That is our hope.

Mr. DEWHURST. Yes.

Senator COCHRAN. What impact, if any, do you foresee for fiscal year 1987? Have you gotten that far in your projections?

Mr. DEWHURST. No. You see, Senator, the budget always projects that the Federal Crop Insurance Corporation will run on an actuarially sound basis, so it doesn't project losses into the future. We know we need the $250 million this year because of losing 50 cents on every dollar it commits. But the official budget projection for next year is that it will run on a sound basis and we won't have these debts.

FISCAL YEAR 1986 CCC FUNDING NEEDS

Senator COCHRAN. Let me be sure I understand one further thing, and this is, I think, about my last question.

The original supplemental budget request which was submitted was $7.95 billion?

Mr. AMSTUTZ. Right.

Senator COCHRAN. The other day, the Congress approved $1.5 billion.

Mr. AMSTUTZ. $1.4 billion, something like that.

Senator COCHRAN. Almost $1.5 billion, and that has been approved.

Now you say that the estimate really should have been $8.85 billion rather than $7.95 billion.

Mr. AMSTUTZ. Yes.

Senator COCHRAN. So what you need in this bill now, this week, if possible, is $8.85 billion less the $1.5 billion.

Mr. AMSTUTZ. Yes, sir.

Senator COCHRAN. OK. That includes the extra money for ASCS?

Mr. AMSTUTZ. Yes, sir, and the $250 million dollars for Federal Crop Insurance.

Senator COCHRAN. For Federal Crop Insurance.

Mr. DEWHURST. You have to make a language change supplemental to cover the administrative costs. You don't have to add money to the bill, but you have to make a language change in the supplemental. You authorize CCC to transfer funds to ASCS each year in the appropriations bill. Similar language is needed for the supplemental.

Senator COCHRAN. For the ASCS?

Mr. DEWHURST. Yes; for the county offices.

Senator COCHRAN. OK. I don't have any other questions.

SUBMITTED QUESTIONS

Let me thank you very much, Secretary Amstutz, for being here this afternoon. I know it was short notice. We also appreciate those of you from ASCS—Mr. Von Garlem and Mr. Hall—and Mr. Dewhurst from the Budget Office. Thank you very much for your cooperation with the subcommittee. If we have any other questions, we will let you know, and will ask you to respond in a timely fashion.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

FISCAL YEAR 1986 SUPPLEMENTAL

Question: The budget request for a 1986 supplemental appropriation was submitted in the form of a permanent, indefinite appropriation. It was estimated that $7.95 billion would be made available under this authority this fiscal year. Since the supplemental budget request was submitted, I have heard that the $7.95 billion is an insufficient amount. How much do you now anticipate will be needed to meet CCC's obligations for the remainder of the fiscal year?

Answer: That is correct. The $7.950 billion supplemental amount included in the President's Budget will not be sufficient to fund the Corporation for the remainder of the year. We now estimate that $8.850 billion is necessary to meet the CCC's remaining cash needs for the year. This includes $650 million in advance deficiency payments due to later program announcements, and $250 million for FCIC indemnity payments which CCC will need in order to loan that amount to FCIC. However, I want to stress that no updated supply/demand estimates have been prepared, and this number may therefore possibly change.

Question: Earlier this month, Congress approved an emergency supplemental for CCC in the amount of only $1.5 billion. When do you estimate CCC will again exhaust its funds?

Answer: Based on current cash flow rates the $1.5 billion made available to the Corporation in early February should be sufficient to cover CCC operations through most of February. However, since CCC outlays are very difficult to estimate precisely, there is a possibility that this amount might last until the first week in March.

Question: Has your estimate for 1987 changed?

Answer: CCC FY 1987 outlay estimates have not been updated since the President's Budget. Program announcements made after preparation of the President's Budget have increased 1986-crop advance deficiency payments by $650 million. CCC FY 1987 outlays would decrease $650 million as a result of these announcements. FY 1987 outlay estimates may also be impacted by 1986 program announcements that have not been made yet. The CCC FY 1987 Mid-Session Review in July will incorporate the impact of these announcements and revised supply and demand estimates upon the FY 1987 estimates.

Question: How much of these additional funds are required as a result of provisions in the 1985 Farm Bill?

Answer: The information follows:

Fiscal Year 1986 CCC Outlays Due to 1985 Farm Bill

Item	($000)
1986 Crop Deficiency Payments	$2,883,000
1986 Crop Diversion Payments	71,000
Loan Deficiency Payments	223,700
Conservation Reserve Program..................	190,000
Whole Herd Buy Out	250,000
Red Meat Purchases	100,000
Dairy Assessments	-235,000
Federal Crop Insurance Corporation Transfers...	250,000
Total	$3,732,700

EFFECT OF GRAMM-RUDMAN-HOLLINGS

Question: The sequester order under the Balanced Budget Act required a reduction from CCC outlays based on the estimated amount of outlays for fiscal year 1986. Does the current estimate (post-sequestration) now serve as a ceiling on CCC outlays for fiscal year 1986?

Answer: No, we do not believe the current estimate serves as a ceiling on CCC outlays for fiscal year 1986. CCC is required by law to support the price of selected commodities and must issue an offer, open to all producers, to make loans on or purchase any quantity of these commodities produced which meet the eligibility requirements. Any ceiling would be unworkable, and the necessary reductions in CCC spending will be made to comply with Gramm-Rudman.

Question: If so, how will CCC's programs be carried out?

Answer: Since we do not believe there is a ceiling on 1986 outlays, the required reductions of 4.3 percent will be applied to checks issued to producers for 1986-crop commodity loans and deficiency and diversion payments and to certificate payments that producers redeem for cash. Both advance and final payments will be subject to the reduction. With respect to the dairy program, CCC purchase prices for cheese, butter, and nonfat dry milk will be reduced by 4.3 percent from March 1, 1986, through September 30, 1986, unless pending alternative dairy assessment legislation is enacted.

Question: Does the sequester order, in effect, reduce the $50,000 payment limitation by 4.3 percent?

Answer: Yes, the sequester order will effectively reduce the $50,000 payment limitation by 4.3 percent.

ASCS SALARIES AND EXPENSES SUPPLEMENTAL REQUEST

Question: Following Senate passage of the Agriculture Appropriations Bill last year, the appropriation for ASCS Salaries and Expenses was listed by the Office of Management and Budget (OMB) as an "objectionable provision" because it was $71 million more than the budget request. Nevertheless, Congress approved that amount. Now the Administration has submitted a supplemental budget request of $72 million for that same account which would be available in addition to the full amount appropriated. How critical is the need for approval of this supplemental request?

Answer: The supplemental request of $71.598 million is critical. Given the Gramm-Rudman reductions of $18.7 million for this account, unless we receive the supplemental, we will have to cease operations in county offices by July 15, 1986.

EMERGENCY ERADICATION PROGRAMS

Question: In the past, the CCC has paid for emergency eradication programs which were conducted by the Animal and Plant Health Inspection Service (APHIS). This year, we are faced with several such outbreaks of animal and plant pests and diseases, with the possibility of others occurring later. We have already heard that there may be amendments to the supplemental which would require CCC to fund some of these programs. (These include avian influenza, citrus canker, and gypsy month. There could possibly be funding needed for grasshopper control later this year.) Are any of these costs included in your estimate of funding requirements for this year?

Answer: $2.5 million in CCC funds was transferred to APHIS at the beginning of this fiscal year to control citrus canker. The liability for this transfer, however, was reflected as a loss in fiscal year 1985. No other costs are included in our estimates.

FCIC BORROWINGS FROM CCC

Question: An amendment I sponsored to the Farm Bill allows the Federal Crop Insurance Corporation (FCIC) to borrow funds from CCC when FCIC has expended its appropriation for indemnity payments. What effect, if any, has that had so far on CCC? What effect do you anticipate that it will have for the remainder of this fiscal year? Is it necessary for the FCIC to reimburse CCC, and if so, will a supplemental be requested at some point so that this can be done?

Answer: As of February 24, 1986, CCC has transferred $35 million of the estimated $250 million to FCIC for indemnity payments to producers. It is anticipated that the balance of $215 million will be transferred to FCIC during the remainder of the fiscal year, as needed. The fiscal year 1987 President's Budget assumes that principal and interest repayments from FCIC to CCC will begin in fiscal year 1988.

FISCAL YEAR 1987 BUDGET

Question: What impact have defaults on Export Credit Guarantees had on CCC? Do you anticipate an increase in such defaults in the future?

Answer: For fiscal year 1981 through 1985, CCC paid export guarantee claims totaling $1.711 billion, of which $1.671 billion was outstanding as of September 30, 1985. Because of the reluctance of some countries to reschedule their debts and because of the lengthy repayment periods once the debts are rescheduled, the amount of CCC borrowing authority tied up by the Export Guarantee Program continues to grow each year. Until the debts are repaid to CCC, that portion of the CCC borrowing authority tied up by the Export Guarantee Program will be unavailable for other CCC price support programs.

The Budget projects defaults on export guarantees of $614 million in fiscal year 1986, of which $140 million has been paid as of January 31, 1986. For fiscal year 1987, we are estimating $683 million in claims. These estimates are based on applying risk factors for each country to the outstanding amount guaranteed by CCC from prior year programs. The risk factors are also applied to the $5.5 billion program level for fiscal year 1986 and $3.0 billion in fiscal year 1987. The 1986 and 1987 projected levels of default are a worst-case scenario based on current world economic conditions. If CCC does not guarantee the entire 1986 and 1987 program levels or if world economic conditions improve, then the level of claims would decrease.

Question: Please detail the costs of CCC program for fiscal years 1985, 1986 and 1987.

Answer: The information follows:

COMMODITY CREDIT CORPORATION
FISCAL YEAR 1987 PRESIDENT'S BUDGET

FY 1985 Actual and FY 1986 and FY 1987 Estimated Net Expenditures
(thousands of dollars)

Item	FY 1985 ACTUAL	FY 1986 ESTIMATE	FY 1987 ESTIMATE
Feed Grains and Products	$5,210,807	$8,535,340	$5,824,293
Wheat and Products	4,690,801	2,861,599	2,981,401
Rice	989,566	960,833	1,018,016
Upland Cotton	1,552,736	1,912,534	1,913,900
Tobacco	455,396	-38,586	-129,686
Dairy	2,084,695	1,786,611	1,555,626
Soybeans	711,358	1,494,775	155,494
Peanuts	12,217	68,668	26,958
Sugar	184,809	-216,932	---
Export Guarantee Program	148,985	570,468	2/ 524,333
Short-Term & Intermediate Export Credit	-20,444	-102,180	-57,709
Storage Facility	-318,026	-263,786	-104,920
Interest	1,434,519	1,541,694	1,317,420
CCC Operating Expenses	351,493	1/ 480,483	431,460
Change in Working Capital	-213,988	570,000	250,000
All Other	298,907	482,236	775,073
Subtotal, Support and Related	17,573,831	20,643,757	16,481,659
Wool	109,365	118,635	113,572
TOTAL Net Expenditures, CCC	17,683,196	20,762,392	16,595,231

Minus (-) indicates a net receipt (excess of repayments or other receipts over gross outlays of funds).

1/ Includes proposed FY 1986 supplemental of $71,598,000 for transfers to ASCS salaries and expenses.

2/ Includes FY 1987 export guarantee proposed legislation savings of $139,786,000.

NOTE: CCC expenditures in this table do not reflect reductions due to Gramm-Rudman 1986 sequester order.

FARM PLAN APPROVAL

Question: In view of the delay in program announcements for 1986, combined with the existing farm credit dilemma, are you aware that many conventional lending agencies such as PCA's and commercial banks have notified farmers that production financing will not be extended until farm plans are approved at the local ASCS office?

Answer: Yes, we are aware farmers have been notified that production financing will not be extended until farm plans are approved at the local ASCS office. The financial institutions use projected diversion and deficiency payments as income for producers. These institutions are using the maximum amount of payments to assist in securing the production loans.

FARM PLAN APPROVAL

Question: Assuming "yes" to answer A: Do you realize many farm plan approvals themselves are contingent on necessary approval of farm financing?

Answer: Farm plans are not contingent on necessary approval of farm financing. In determining the number of "persons" in a farm operation, financing is examined only to determine if the financing is secured solely by the assets of the particular "person" and not secured by assets of any other individual or entity.

Question: Are you aware that farmers in areas where farm plans are affected so dramatically by cross-compliance will have less than 4 working days to submit and gain approval of their farm plans and their local ASCS office assuming the President signs the Technical Amendment into law today (2/24/86)?

Answer: Cross-compliance does not affect a "person" determination. The producer's farm plan does not have to be submitted to the county office by March 1 nor does the county office have to act on the plan by March 1. The farming operation has to be established or in effect by March 1. Because payment limitation regulations have not changed, operations such as partnerships and corporations should already be established even though the program was announced later than usual.

Question: The Food Security Act of 1985 was signed into law just days before Christmas and its provisions are such that it is essential that producers sign up and participate in the program. Because of the timing of program announcements and the larger than usual number of participants, do the local ASCS offices have the necessary infrastructure to deal with the large volume of instructions of participants effectively without extending the March 1 date on approval of a producer's farm plan?

Answer: Payment limitations have been in effect for 15 years. The regulations have basically not changed for the last 12 years. Although the number of producers affected by the payment limitation has increased, the payment limitation regulations have not changed regardless of the fact the Food Security Act of 1985 was signed into law just days before Christmas. The local ASCS offices do not have to approve farm plans by March 1. A farm plan must be approved before any payment can be made. The plan can be approved at any time after signup and before payments are disbursed to producers. Therefore, we believe ASCS offices are adequately staffed to handle all assigned responsibilities.

STORAGE OF CCC GRAIN

Question: Please discuss your plans concerning storage of grain forfeited to CCC from the '85 loan program and availability of storage for the '86 crop.

Answer: Our assessment of the 1986-crop storage situation is that we may be faced with a critical shortage of storage space assuming a relatively normal crop (average of last 3 years) and utilization remaining relatively constant. However, this assessment of the storage situation does not take into account the impact of the Food Security Act of 1985 on the 1986 crop or stocks in storage belonging to the Commodity Credit Corporation (CCC) which might be utilized in the various payment-in-kind provisions of the legislation.

We are presently looking at various storage options that CCC can implement in 1986 if a tight storage situation develops. With CCC inventory increasing, CCC stocks are occupying larger quantities of storage space, so it is imperative that CCC be in a position to respond to warehousemen's requests to move our grain in order to make room for new-crop producer grain and forfeited loan grain being delivered to CCC by producers.

We have recently asked all of our Uniform Grain Storage Agreement (UGSA) warehousemen to give us their best estimate of the quantity of CCC grain they will request to be relocated or the amount of storage space they will make available to CCC.

We have informed warehousemen that if they intend to request CCC to move its grain, they should get their requests in early so that our Kansas City Commodity Office (KCCO) can respond well in advance of harvest. KCCO is presently processing numerous requests for loading orders. If timely processing of the loading order is not possible then, KCCO will include those quantities of grain by location in a catalog and attempt to accomplish the movement via a swap.

We intend to make an early announcement, probably in early March, that USDA will authorize the use of emergency storage space. This will give warehousemen an opportunity to plan their storage strategy ahead of harvest.

The following additional programs are either already in use or have been authorized in the past and can be implemented again in 1986:

-Distress Loan Program
-Providing Transportation Assistance for Reserve Corn
-Contemporary Storage
-Temporary On-farm Storage
-Substitution

We are looking beyond these storage options to specific actions that CCC could take to provide storage for its inventory. These include such things as leasing available airplane hangars or other facilities on military bases, ship storage, and barge storage.

Question: What impact will this have on your need for CCC funding?

Answer: To the extent that grain under loan is forfeited into CCC inventory and becomes a CCC storage obligation, this further contributes to CCC's borrowing authority problem. Current estimates have taken likely forfeiture levels into account, however.

Question: Do you feel expansion of the marketing loan program to include feed grains would be helpful in eliminating this problem?

Answer: No. Whether title to grain is held by CCC or the producer, the grain must be stored until it is utilized. Much of the grain will be used to satisfy producers' commodity certificates earned in the 1986 farm program.

CCC FINANCING

Question: In the monthly press release that CCC issued for September 30, 1985, in the table on page 4 under section "Less: Financing Other Than by Use of Borrowing Authority:" there appears a number of accruals. How do accruals make financing available?

Answer: The accruals represent anticipated payments to be made in FY 1986. At the time the accruals were established, a related expense was also established which are in turn reflected in the net realized loss amount. Appropriations are provided to cover CCC's net realized losses, and in recent years have been made in advance of the actual recorded losses. Therefore, the financing for those accruals is through appropriations made in advance to meet the Corporation's immediate cash needs.

Question: Could you explain to me how on January 31, 1986, Loans and Inventory amounted to $31.5 billion while the borrowing authority is limited to only $25 billion?

Answer: The Corporation's Charter Act authorizes it to use all funds becoming available to it. There are a number of other sources of funds available to CCC for ongoing operations such as its capital stock of $100 million, advance appropriations such as P.L. 480, and other appropriations and funds deposited to CCC in advance of their actual use. Also, the Corporation has, in the recent years, received advance appropriations for losses not yet realized in order to meet ongoing program payment commitments. All these items and others constitute financing other than through the borrowing authority and are so noted in CCC's monthly reports on borrowing authority in use. Although selected components of borrowing authority in use may exceed $25 billion at a point in time, these other financing items are sufficient to keep CCC within the total ceiling of $25 billion. When this is not the case, the Corporation ceases operations, as it has twice this fiscal year, until appropriations are made by Congress or until funds, such as loan repayments, become available.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

EFFECT OF CCC FUNDING LEVELS ON ARKANSAS

Question: Without this proposed increase in CCC's borrowing ceiling and the approval of a permanent, indefinite appropriation, will you cite specific examples of what the effects will be on the State of Arkansas.

Answer: Without the proposed increase in CCC's borrowing ceiling and the approval of a permanent, indefinite appropriation, the recent financing problems we have been experiencing can be expected to continue. Specifically, since CCC outlays are very difficult to project with any certainty, CCC operations may have to be shut down with increasing frequency as long as supplemental appropriations are depended on for the on-going capital needs of the Corporation. Each shutdown results predominantly in delaying deficiency payments and loanmaking to farmers participating in CCC programs. The State of Arkansas receives, on average, about 3 percent of gross CCC outlays, or an estimated $687.8 million in fiscal year 1986. If a one-month shutdown of the Corporation were to occur in fiscal year 1986, Arkansas farmers and producers would experience loanmaking and payment delays of approximately $57.3 million, based on one-twelfth of the annual estimate. We are confident, however, that the Congress will provide for CCC emergency financing needs in an expeditious manner, making a one-month shutdown a hypothetical example.

Question: You indicated that the March 1 Gramm-Rudman sequestration will result in a savings of $824 million in outlays in the FY 1986 crop program. What are the results of that sequestration on my State, specifically?

Answer: To comply with the sequestration, reductions of 4.3 percent will be applied to checks paid to producers on commodity loans, deficiency and diversion payments, and certificate payments that producers redeem for cash for the 1986 crops. The reductions will be applied after the maximum payment limitation of $50,000 per producer has been applied. Based on historical levels, Arkansas' 1986-crop CCC gross outlays before Gramm-Rudman would be $629.4 million, paid in fiscal years 1986 and 1987. Applying the 4.3 percent reduction to this estimate, the FY 1986 sequester order will result in CCC program reductions of approximately $27.1 million for the State of Arkansas.

EFFECT OF SEQUESTRATION ON ADMINISTRATIVE SUPPORT

Question: What kind of staffing reductions is the CCC facing under this sequestration, and how is CCC avoiding delays in payments to farmers participating in the programs?

Answer: Even with the anticipated approval of the $72 million supplemental for Salaries and Expenses, we project an estimated 767 staff-year shortfall nationwide in the 2,800 ASCS county offices where CCC's farm programs are administered. While this reduction will not affect permanent employees, it will reduce the number of temporary employees normally hired in the counties during peak workload periods. These reductions will cause delays in some work activities. To minimize delays in processing payments for program participants, county offices will use prudent resource management, postpone less essential functions, and concentrate on critical activities such as program sign-up, processing of deficiency payments, and loanmaking. There will also be some staff-year impact in State, Washington, and field offices as a result of this year's sequestration.

SUBCOMMITTEE RECESS

Senator COCHRAN. Thank you for your cooperation.

Mr. AMSTUTZ. Thank you, Mr. Chairman.

Senator COCHRAN. The subcommittee meeting is adjourned.

[Whereupon, at 3:47 p.m., Monday, February 24, the subcommittee was recessed, to reconvene at the call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

TUESDAY, MARCH 18, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:35 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, Abdnor, Kasten, Specter, Burdick, Chiles, and Harkin.

DEPARTMENT OF AGRICULTURE

SECRETARY OF AGRICULTURE

STATEMENT OF RICHARD E. LYNG, SECRETARY OF AGRICULTURE

ACCOMPANIED BY:
- ROBERT L. THOMPSON, ASSISTANT SECRETARY FOR ECONOMICS
- STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Senator COCHRAN. The subcommittee will please come to order.

This morning we are very happy to have before our subcommittee the new Secretary of Agriculture, Mr. Dick Lyng.

Even though we have already this year had three hearings in our subcommittee looking at a variety of specific issues, such as farm credit, the operation of the Commodity Credit Corporation, and the problems associated with the outbreak of avian influenza, this is the first official hearing specifically examining the President's budget request which he has submitted to the Congress as it relates to the Department of Agriculture and the related agencies which come under the jurisdiction of this subcommittee.

We are very pleased to be able to start our hearings with the Secretary of Agriculture, Dick Lyng, whom we have come to know over the years as a very capable and dedicated person who is quite knowledgeable about the issues that confront production agriculture in America and our position in relation to trading partners and those who seek to purchase our goods overseas.

I'm optimistic that this is going to be a period of renewed stability and profitability in production agriculture under the leadership of our new Secretary. I think that because of the changes that were made in the farm bill that was passed last year and signed by the President, and the changes that are occurring to make our goods more competitive by reason of the decline in the value of the dollar in its relationship to foreign currencies, we are going to see an environment which is going to make it easier for those who have been customers of the United States to buy once more from America's farmers, rather than from some of our competitors in other parts of the world.

I'm optimistic, and I think that even though we continue to be confronted with some serious problems, particularly in the farm credit area, I think that these are problems that can be solved, and that we are going to work our way through these difficult times into a new era of stability and profitability.

In the interest of time, I will insert the remainder of my remarks in the record at this point.

[The statement follows:]

STATEMENT OF SENATOR COCHRAN

USDA PROGRAM FUNDING

USDA is charged with administering commodity price and income support programs that assist farmers and ranchers. It also oversees a wide range of agricultural credit, insurance, research, and economic programs that benefit not only producers, but also others in the food and fiber system, including consumers. The Department carries out these responsibilities with a staff of almost 109,000 employees located in more than 30 separate agencies.

USDA's activities and programs receive their funding from a variety of sources. Annual and supplemental appropriations provide about half of the money. The remainder is in the form of permanent appropriations, trust funds, in-kind benefits, offsetting receipts, and other sources.

FISCAL YEAR 1987 BUDGET OVERVIEW

The administration is proposing few major policy changes to lower the cost of the commodity support programs which were approved as part of the 1985 farm bill. However, proposed reductions are aimed at most other Department activities, some of which would be cut deeply or even eliminated. For example, in the Farmers Home Administration, all rural housing and community development programs, farm ownership loans, and emergency disaster loans would be eliminated. The Rural Electrification Administration's programs would be phased out by 1990. Soil and water conservation activities would be sharply curtailed. Agricultural research programs would be continued at approximately current levels, but Federal funding for the Extension Service would be reduced significantly—59 percent.

Also, a number of earlier ideas have been revived: cutting nutrition assistance and CCC export activities; as well as imposing user fees to pay for many marketing activities, such as meat and poultry inspection. These are proposals advanced last year that proved unpopular with Congress.

I am deeply concerned about many of these proposals, and can assure you that the subcommittee intends to weigh all of these requests very carefully as we proceed toward markup of the 1987 Agriculture Appropriations bill.

ADDITIONAL REMARKS OF SENATORS

Senator COCHRAN. The distinguished Senator from North Dakota, Senator Burdick, is not able to be here as we start this hearing. He will be coming in later on. We will recognize him for any comments that he may have at that time.

At this point, let me recognize other members of the subcommittee for any opening remarks or statements that they may care to make.

I recognize Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman.

I very much appreciate your calling on me early. I had indicated to the chairman that I arrived early because there are hearings on the confirmation of the new Veterans Administrator in the Veterans Subcommittee. I do appreciate this opportunity to make a brief statement.

I have already talked informally to the Secretary before the hearing began.

At the outset I compliment you, Mr. Secretary, on your appointment and confirmation. I look forward to working with you. Few people realize that Pennsylvania relies so heavily on farming. We like to point out in Pennsylvania that there are more people living in the rural part of Pennsylvania than live in the rural part of any State in the United States, with some 2½ million Pennsylvanians living in the rural part of the State.

I have a number of questions that I will submit to you for the record.

AVIAN INFLUENZA

At this time, Mr. Secretary, I would like to call to your attention on the record, as I did informally before the session began, a very acute problem which Pennsylvania farmers now suffer: avian influenza. There has been a problem with avian flu for some time.

Two years ago the farm community in central Pennsylvania had a severe disease outbreak. There are four counties which are currently afflicted with the problem. I think it is important to lay to rest any rumors that it is more widespread than that. We have been perplexed with rumors that some 15 counties in Pennsylvania are afflicted with an avian flu problem. That is not, in fact, true.

The request that I have for you, Mr. Secretary, is to take a close look at what might be done on this problem in terms of research which would have some potential for eliminating or minimizing the problem in the future.

The immediate problem for Pennsylvania's poultry growers is to remove the current Canadian ban on imports of unprocessed poultry and eggs from Pennsylvania. The Canadians have excluded poultry from Pennsylvania on the mistaken notion that there is a problem that is much more widespread than the facts demonstrate.

Senator Heinz and I have written to officials of the State Department asking for assistance with the Canadians to get them to accept shipments of Pennsylvania poultry.

There is one other item which I would like to call to your attention for the record. It appears that the current problem of avian flu was caused by a contaminated truck which came from New York State. A number of Senators have pointed out the necessity of regulations which would call for sanitation regulations for trucks which travel in interstate commerce which have the potential to spread this kind of problem.

While Pennsylvania has a great many difficulties in the agriculture community, as suggested in the seven questions which I'm going to submit for the record, I would request that you take a special look at the problem of avian flu on a priority basis because it is so acute in my State at the present time.

Thank you very much, Mr. Chairman.

Senator COCHRAN. Thank you, Senator. We appreciate your being here and your contribution to the hearing and to the work of the subcommittee which is very important.

The Senator from Wisconsin, Mr. Kasten.

Senator KASTEN. Mr. Chairman, thank you very much. I have a brief statement.

FARM SITUATION

Farm exports and farm income are down while the farm debt and interest rates remain stubbornly high.

In Wisconsin from 2 to almost 10 percent of the existing farms could be forced into liquidation this year. The hardship that has caused the crisis in agriculture extends beyond the farm gate.

It strikes at the agri-business and farm implement dealers throughout the rural communities. It strikes at the vitality and the survival of rural communities across America.

My message is simple. We in the Congress have an obligation to do what we can to help. Spending restraint is important, but asking agriculture to give more than its fair share to the cause of deficit reduction is shortsighted and insensitive to rural America.

I'm pleased to join my chairman and the other members of the subcommittee in welcoming Secretary Richard Lyng. Dick Lyng has had a long and distinguished career at USDA and as president of the American Meat Institute. He is experienced and knowledgeable; I look forward to working with him this year.

The budget for his department is another story.

Mr. Secretary, I know that this budget was put together before you were even nominated, so I won't belabor the issue with you. Let me just say that we've gotten into a kind of routine over the last few years in terms of working on the USDA budget.

Every year this subcommittee is presented with a budget that cuts the heart out of vital programs like Extension and rural electrification. Every year we ignore a large part of the budget and have to put together an appropriations bill practically from scratch.

I think that we have made some real progress in this subcommittee over the last few years, but we could use some help in the form of realistic budget requests from the administration.

Let me just say this once for the record. Wisconsin cannot afford, and I will not accept, a budget that does not recognize the importance of the Extension Service, REA, and a strong Soil Conservation Service.

I said earlier that I believe that we have an obligation to help farmers and to help rural America. Congress did do something to help last week. We passed a package of farm legislation that included, among other things, the text of a bill which I introduced to replace the 55-cent-per-hundredweight cut in support prices with a 10- to 12-cent assessment in milk production. It has not been signed yet, though, and that concerns me. I introduced my legislation on February 20, almost a month ago. Except for a few technical details the legislative package has basically been public knowledge for weeks now. I can't understand what is taking the administration so long to get this bill signed into law.

Let me explain why this is so important. The cheese and butter markets have been operating in great uncertainty for over 2 weeks. Cheese and butter plants have been holding inventory with the expectation of congressional action while some of their customers, especially the butter users, held off buying in the hope that Congress would not act.

The uncertainty continues. The cheese manufacturers have been able to hold up the price of cheese for 3 weeks running now. But the large inventories have been depressing the market price of butter.

If the dairy bill is not signed shortly we will be looking at serious price drops and cuts in the dairy farmers' income. Avoiding further cuts in farm income was the whole point of the bill which I introduced, and of the package.

I would tell you this, Mr. Secretary, and I really can't emphasize this point strongly enough. The President must end this uncertainty and prevent cuts in dairy farmers' incomes by signing the bill without further delay. The dairy farmers and the whole Wisconsin dairy industry have already been left hanging for far too long. We need action. We must have this bill signed into law.

Mr. Chairman, thank you.

Senator COCHRAN. Thank you very much, Senator, for your comments and for your participation in our work, not only at this hearing, but throughout the year. We appreciate your assistance very much.

The Senator from North Dakota, Mr. Andrews.

Senator ANDREWS. Thank you, Mr. Chairman.

Mr. Secretary, it is great to see you here. I have been on this side of the table at appropriations hearings, both in this body and in the other body, and we have welcomed you in various capacities in the Department of Agriculture. I can't think of anyone that I'm happier to see come back as the Secretary.

You have got a wealth of experience. You and I are going to go round and round. We are going to disagree on a number of things. But we can disagree from time to time without being disagreeable.

The thing that we know on this side of the table, whether we are on the Republican side or the Democratic side, is that Dick Lyng, our new

Secretary, is going to give it the best try possible to make this thing work.

There are a lot of problems that you are facing, a lot of problems that all of us in agriculture are facing. Some of them, of course, bother me in representing a farm State. I know that they bother you, representing agriculture, as you do now.

I think in our budget—and we are going to have to address this in that room up on the sixth floor of this building, this week hopefully—that some of those budget cuts in agriculture really don't make that much sense. They are not cost effective ones. We have the great work that we have done in the experiment stations, and then you propose to sharply cut back these stations and the Extension Service.

When you get this information from research, and if you don't disseminate it, aren't you really diminishing the original investment?

Now these are questions that we would like to go into detail with you, but we really can't because you are an officer of the administration. You are going to be supporting that budget request.

There are things that we are going to try to work out and, hopefully with your help, we will find a way to resolve it.

GRAIN INSPECTION FEES

The Federal Grain Inspection Service and the inspection fees. Mr. Chairman, as you know so well in your Gulf Coast State, as well as those of us who live in midcontinent America, that, quite candidly, when you talk about the problems in Central America and the President is talking about the problems in Central America, he seems to strangely forget the problems in North and South Dakota, Iowa, Nebraska, and Kansas. That is the Central America that they ought to be concerned about.

When we begin taking the production of that grain and moving it into export, that is where we find the market for two-thirds of it.

We've got a request in the budget to put the Federal Grain Inspection Service on an inspection fee paid by the shipper. Those foreign customers, Mr. Secretary, are going to be very concerned that maybe the cat, you know, is in the henhouse, because they feel that inspection service should be totally nonpartisan, totally neutral, and if it is paid for by the shipper, then our customers that we are trying to develop—who we are trying to convince that this inspection service is then strictly on the up and up—they are bound to have some questions or, they have, say, some reservations, about the validity of that inspection service if it is paid for by the people who are shipping the grain.

FARM PROGRAM

Finally, of course, we address two issues, Mr. Chairman, and if I can take leave because I know that this is the time for opening remarks, but I checked with the Secretary before when he came up at the confirmation hearing and you and I sat on that authorizing committee as well, and that these are problems that need to be resolved immediately.

There is the problem of signing. The Senator from Wisconsin asked you about when is the President going to sign the bill. We know that he is going to sign it in the next couple of days. But that puts into effect an entirely different set of circumstances out in the field that the county officers have to work out with the individual farmers that apply for that signup in that new farm program.

Are you going to extend the signup period so that those farmers can know accurately what they are signing up for, Mr. Secretary?

Secretary LYNG. Senator Andrews, we haven't made a decision on that yet. As I understand it, the information contained in that bill which the President I know intends to sign very soon has already been transmitted to the ASCS offices. They are very busy there. We are not absolutely sure that there is the need for an extension of time. We will see to it that everyone has an opportunity to participate in the program.

Senator ANDREWS. Are you telling us, Mr. Secretary, that you say that information is out and we know that the President is going to sign it that you have instructed those county officers to sign up on the basis of that bill as passed, Mr. Secretary?

Secretary LYNG. No; we haven't been able to do that, of course. But they are fully aware of what is in the legislation and what impact it has. They can help individuals, the individual farmers, and the actual signup will have to take place somewhat later.

Senator ANDREWS. So they are going to give the farmers that kind of information, the computer workouts for that farm if or as if the bill had been signed into law?

Secretary LYNG. That's my understanding.

Senator ANDREWS. And what you are going to do then is to give them the time from the period of the signup, and they have to sign up under the original rules, that you are then automatically going to factor in the new rules. Then the farmer has the right to refuse this if he doesn't like the second verdict.

Secretary LYNG. Yes.

Senator ANDREWS. Yes.

Secretary LYNG. It has been pretty well known that the Congress was considering this up until a week or so ago. That has delayed, as you say, the signup. It has added to the confusion that was already apparent with the very complex and different farm legislation.

Senator ANDREWS. But, Mr. Secretary.

Secretary LYNG. Yes.

Senator ANDREWS. But, Mr. Secretary, if you are facilitating the signup in that way, in getting that information out there and doing the good job that we expect you to do, then perhaps the extension of the signup then is not as necessary, provided that you feel that the farmers are protected with the right to know.

Secretary LYNG. We are making a real effort.

Senator ANDREWS. That's my concern.

Secretary LYNG. We are making a real effort to do that. We will follow up to see that it actually takes place, Senator Andrews, and that the people do have the opportunity, the ample opportunity, to sign up.

FARM OPERATING LOANS

Senator ANDREWS. The other emergency comment that I have, Mr. Chairman, is the one that we asked when you and I were sitting together during the Secretary's confirmation hearings.

Senator COCHRAN. Yes.

Senator ANDREWS. I asked you, Mr. Secretary, if a farmer is qualified for a Farmers Home loan, will you do everything to see that he gets that loan? You answered very definitely. We hear stories that the money is exhausted. My home State of North Dakota has gone into the third- and fourth-quarter allotment. That has been expended.

The President transferred about three-quarters of a billion dollars just a week or two ago to that fund. You are monitoring it, as I understand it, and you are on top of it.

Is that statement that you made, that pledge that you had made in your confirmation hearing, is that still operational, Mr. Secretary?

Secretary LYNG. Yes; there have been considerable happenings since then.

The President did, a week ago today, reallocate three-quarters of a billion dollars into farm operating loans. I talked to the people who administer that program late yesterday afternoon. They believe that we are coming along pretty well with what may be adequate funds to take care of the spring planting.

Senator ANDREWS. So you feel that you are going to do everything possible to make sure that, for those farmers who are qualified, that those funds will then be available, Mr. Secretary?

Secretary LYNG. That is correct.

Senator ANDREWS. Thank you, Mr. Secretary.

Secretary LYNG. Thank you.

Senator ANDREWS. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator Andrews.

I recognize now the Senator from Iowa, Senator Harkin, for any opening comments or statement that you care to make at this time.

Senator HARKIN. I do have some questions for Secretary Lyng later. Thank you.

Senator COCHRAN. We will proceed to hear from the Secretary. Let me, before we do proceed, welcome Stephen Dewhurst, the budget officer, and Robert Thompson, whom you have with you this morning.

Robert Thompson is the Assistant Secretary for Economics.

Senator ANDREWS. Mr. Chairman.

Senator COCHRAN. Yes.

Senator ANDREWS. He is the one who was the "abominable no man," Mr. Chairman, if you recall during the markups. He kept telling us all the things that we couldn't do on the basis of why it wouldn't work.

Senator COCHRAN. Let me also welcome to the committee Wilmer Mizell, my good friend and fellow Mississippian, even though he lives in North Carolina now and he calls that his home. He is a great friend, and he really makes a very valuable contribution to the Department of Agriculture and to the actual relationship that the Department has here on Capitol Hill. As a former Congressman, he knows where all the rooms are up here and who is in most of them. We appreciate his valuable assistance.

Mr. Secretary, thank you again for your cooperation with our committee.

PREPARED STATEMENT

We invite you to proceed. You have a statement which you have prepared for us. We thank you for that. We will now include that in the record at this point in full. We will then invite you to make any comments that you would like to at this point to the committee.

[The statement follows:]

STATEMENT OF RICHARD E. LYNG

It is a privilege to appear before the Committee as the Secretary of Agriculture to discuss the programs of the U.S. Department of Agriculture and our FY 1987 budget. At the outset, I want you to know that I look forward to renewing the long and excellent relationship I have had with this Committee. We face many problems which we can resolve only if we work together.

Obviously, one of the most immediate problems is the budget. Mr. Chairman, I know that you are concerned about many of the proposals in the 1987 Budget. You know as well as I do how difficult it is to put together a budget when the focus is on how to reduce Federal spending. In this environment, it becomes necessary to set priorities and decide which programs need to be maintained because of a clear Federal role and which programs should be cut or shifted to other funding sources. Hard choices have to be made.

The Department has looked at the budget from this perspective as well as the requirements laid out by the 1985 Farm Bill. While the President's budget reduces overall USDA programs by about $9 billion from the FY 1986 level, the budget maintains a high priority emphasis on a range of programs including, research, price supports, farm credit, food assistance, conservation and other important areas.

We believe adoption of the President's budget is the best way to achieve the savings necessary to reach the FY 1987 budget deficit target required by the Gramm-Rudman legislation. Clearly, the high priority programs of the Department will fare much better under the President's budget than they would if another sequester order is issued for FY 1987. USDA spending represents about 5 percent of total Federal spending but accounts for almost 30 percent of Federal non-defense outlays which are subject to the sequester process. Thus, those who support USDA programs have a particular interest in avoiding another sequester. From this standpoint the President's budget is good for agriculture.

Also, agriculture stands to benefit greatly if the budget deficit is reduced.

Lower interest rates for farmers could result because of a lower deficit and U.S. exports could become more competitive if the value of the dollar continues to drop.

I would like to comment briefly on some key USDA programs and how they will be affected by the FY 1987 budget.

. Sufficient funds are included in the budget to carry out the farm commodity programs authorized by the 1985 Farm Bill. Advance deficiency payments on the 1986 crops will be made and this will help to reduce operating credit needs and improve cash flow for farmers.

. While sufficient funds have been included in the budget for farm programs, sufficient borrowing authority for CCC may not be available to run the programs. We appreciate the efforts of this Committee in replenishing CCC funds, but there will continue to be great uncertainty in CCC's ability to finance its programs over the long-term unless a permanent solution to the funding problem is found.

. Export credit programs may continue to be useful in the future, but it is expected that the market oriented loan rates and the value of the dollar will have a bigger impact on exports than the credit programs.

. Foreign food aid requirements will remain largely unpredictable but they should be at a more normal level for 1987 since the food situation in Africa has improved. New authorities in the Farm Bill may allow us to respond more quickly to unexpected requirements.

. Farm operating credit will continue to be highly important to farmers during planting season and funding for operating credit will need to be maintained. The advanced deficiency payments we are making and FmHA's use of its servicing actions including reschedulings, deferrals and subordinations also will be helpful in this regard. In addition, the President has announced that an additional $750 million will be available for farm operating loans through a transfer of funds from other FmHA programs. Also, a new policy of forebearance in meeting banking regulations has been established for agricultural banks. The new policy will encourage banks to restructure problem loans and to participate in FmHA's interest buy-down programs.

- Soil conservation is of long-term importance to the nation and funding of the Conservation Reserve Program is especially important because it aims to achieve soil savings on the nation's most erosion prone land. In addition, it may also achieve savings in the price support area as this land is converted from crop production. This program has received strong support in the Congress and preliminary reports indicate that it is being well received by farmers.

- Funding for domestic food assistance programs servicing low-income persons has been kept near current levels because of the vulnerable groups involved. Reductions are proposed in programs subsidizing the non-needy.

- The Federal commitment to agricultural research remains a high priority. Research will be needed over the next several years to develop new uses and new markets for farm products, strengthen farmer profitability and increase our competitiveness in world markets.

- However, to do these things and still live within a total outlay figure of $44.6 billion means that many other programs must be terminated or reduced. These include FmHA housing and rural development programs, the ACP and watershed programs. There are also proposals for new or increased user fees in many areas and for the elimination of subsidies in programs as diverse as crop insurance and school lunches for non-needy children. Every one of these programs has its supporters, and so the debate will be intense over the next few months. In the end, we simply must set a budget and live within it.

I think these points cover the main areas of the budget. USDA will have to reduce its outlays during FY 1987 if the budget deficit target is to be achieved, but in reducing these outlays we need to make sure essential programs and services are carried out at adequate levels.

Mr. Chairman, I would be glad to respond to any questions that you may have. I am also looking forward to working closely with you and the members of the Committee so that an acceptable budget can be developed and be put into effect for FY 1987.

BUDGET CONCERNS

Secretary LYNG. Thank you, Mr. Chairman, and members of the committee. It is a pleasure and privilege for me to once again testify before this subcommittee. I look forward to renewing the friendly relationships that I've had with the members of the committee and with the committee staff as well, Mr. Chairman.

I will not read the testimony. I will simply summarize it. I'm grateful that you have included it in the record just now.

The most immediate problem, of course, for us is the budget. I know that you are, as has already been described, concerned about many of the proposals.

It was pointed out by Senator Kasten that I did not participate in the preparation of the budget. But I think that I can defend it because of the need for cutting the size and the scope of the budget at the Department of Agriculture in order to meet the needs of getting the deficit under control.

Now from the perspective of all of the things that we would like to do, the budget does not include them. But from a perspective of setting priorities, I think this is about the best way to achieve the savings that are necessary.

Agriculture generally benefits greatly if we can get the Federal deficit under control. We have already seen, I think, based upon some of the actions that have been taken, a major reduction in the interest rates. We have seen the value of the dollar come back into balance with the other currencies. These things are going to help farmers in both the cost of their operation and in their opportunities to export.

We think that there are sufficient funds in the fiscal year 1987 budget to carry out the commodity program of the 1985 farm bill. We fear that if the Congress and the administration cannot come to grips with a budget that is mutually acceptable and that meets the requirements of Gramm-Rudman, that the farm programs of the 1985 farm bill will be severely reduced in the sequestering effort and would be disastrous in light of what we have been trying to accomplish with that legislation.

The farm operating credit will continue to be of major importance.

This year we are making advanced deficiency payments—or we will as soon as the supplemental has been approved. This will help, as well as the added amounts that the President approved last week.

There is much more that I can talk about in soil conservation, funding of domestic food assistance, and the commitment to agriculture research, which remains as a high priority.

The big problem that I think that we have to emphasize is trying to put all of the needs of the Department and also of agriculture into a budget that is responsible. I think it can be argued that the President's budget as far as the Department of Agriculture is concerned is one where priorities have been carefully considered. It is a budget that deserves careful support and consideration by this committee.

Thank you, Mr. Chairman.

FARM CREDIT

Senator COCHRAN. Thank you very much, Mr. Secretary.

The Senator from North Dakota, Mr. Andrews, has already asked you a question about the farm credit situation and the operating loan account of the Farmers Home Administration.

Secretary LYNG. Yes.

Senator COCHRAN. As you know, just a few days ago the Congress had before it some language that expressed the sense of the Congress that the previously appropriated amounts be used by the Department of Agriculture to make available farm credit to those who couldn't qualify for loans from the traditional lending sources.

We have run into a procedural problem in getting that language approved, and a point of order was sustained against the language because, in the opinion of some, it violated the Budget Act.

We are now trying to draft language that will not violate the Budget Act but which expresses clearly the sense of the Congress that funds that have been made available through the appropriations process be used.

I'm hearing from some Members of Congress that in their States they are being told that they don't have enough funds to make these loans available to farmers.

In my State, it is not the availability of the funding so much as it is the impossible eligibility criteria that are being promulgated by the Farmers Home Administration, making it extremely difficult for the farmers to show an ability to pay back any kind of loan.

Now, the reason for that is that the Farmers Home Administration is requiring a 5-year projection of revenue to show potential for debt service. In some cases it is just impossible for the farmers to calculate returns that far in the future and to base that on projections by the Department of Agriculture about the commodity prices.

I wonder whether the degree of sensitivity that should be exhibited by the agency is, in fact, being used, because these are loans of last resort. The Farmers Home Administration is designed to enable distressed farmers, but under the current regulations you just about have to prove that you are not distressed to qualify for a loan there.

I wonder whether or not you are going to be able to talk with the administrators of that program and be sure that the agency carries out its mandate and with the funding that has been made available by the Congress.

Secretary LYNG. Senator, you raised some of those same issues at the time of my confirmation hearing. Subsequent to that I did discuss it. I had been briefed before that. I discussed it with the executives of the department that handle the Farmers Home Administration loans. They tell me that the criteria is not quite as extreme as the information that you received. The criteria is really that the borrower should be able to show that he has some potential for making repayment of that loan at the end of the year. These loans were made to plant a crop, tend a crop, and harvest a crop.

So then, if the farmer cannot show that he has the funds available under normal conditions to repay that, he is then not eligible. I find it hard to be critical of that kind of a criteria.

PROPOSED LEGISLATION

Senator COCHRAN. The budgets that have been submitted to this Congress—and the Department is a part of those budgets—always contemplate changes that are being requested in legislation that will affect the cost of programs. There is always one part of the budget that is treated differently by the Department of Agriculture when this submission is made. That is the nutrition accounts. The Food Stamp and Child Nutrition Programs always seem to be singled out for a different treatment.

What happens is that in the appropriations request, language is included stating that it is contemplated and expected that changes will be made—in the appropriations bill—to reduce the cost of these programs. This is done every year whether that is a realistic expectation or not. This committee doesn't have jurisdiction over the legislation, and time after time we have to appropriate the funds that are projected to be needed for those programs whether the changes have been made or not.

What I don't like about it is that it makes the committee appear to be appropriating more funds than the administration thinks are needed for this program.

I would like to see suggested changes in the legislation—whether in the nutrition area or in the farm program area—all be treated alike. There are separate documents that contain suggested legislative changes in the other areas, but always in the nutrition area the language is included in the appropriations request. Again this year we see the same thing. I would like to see under your new leadership of the Department a review made of whether or not all of the accounts under this budget can be treated the same for the purpose of contemplated legislative changes insofar as the request for funding is concerned.

It is not really a question. I guess that the question is, Do you really think, having just signed legislation that reauthorizes the Food Stamp Program—and we do have some Child Nutrition Program legislation in conference—that it is realistic to expect the Congress to go back into that section of the farm bill, review all of those provisions, and write a reform bill and get it passed before the beginning of this next fiscal year so that the contemplated changes and the reduced cost of those programs will be what the administration says that they should be?

Secretary LYNG. I would very much like, Mr. Chairman, to be able to say that the suggestion you made for treating all of these requests alike is acceptable. But before I say that, I'm going to ask Steve Dewhurst if I'm getting in trouble if I say that.

Mr. DEWHURST. Well, the reason for the different treatment is because the nutrition programs are handled by a different organizational unit within the Office of Management and Budget than the rest of the Department of Agriculture.

Senator COCHRAN. Could you pull the mike to you, closer to you?

Mr. DEWHURST. Yes; the reason for the——

Senator COCHRAN. The reason for the difference in the treatment is what?

Mr. DEWHURST. The reason for the difference in the treatment, Mr. Chairman, is because the nutrition programs are handled by a different organizational unit within the Office of Management and Budget than the rest of the Department programs. They have a different philosophy as to how these matters should be presented in the President's budget.

This is not a matter over which the Secretary has any direct control because the final decisions on the President's budget are made at OMB.

Senator COCHRAN. Mr. Secretary.

Secretary LYNG. With that explanation, Mr. Chairman, I'll concur with your suggestion and see if we can't get this done.

Senator COCHRAN. Talk to them down there at OMB. I'd hate to see everything blamed on them. I like to blame them, too. They are tough to deal with.

You have Cabinet rank.

Secretary LYNG. Yes.

Senator COCHRAN. You are just as stout and tough in this administration as James Miller. I hope that you can strive for some uniformity in the way that those accounts are handled, Mr. Secretary.

Secretary LYNG. I'll do so.

EFFECTS OF SEQUESTER ORDER

Senator COCHRAN. I had a letter put on my desk yesterday, or actually it was a copy of a letter that a constituent of mine had written to the President. She complains or worries, really, in the letter about whether or not she is going to lose her job because of the sequester order under Gramm-Rudman-Hollings. She says that she is a budget analyst at the Department of Agriculture in one of the offices in Mississippi. She wonders whether or not there will be enough of a budget to analyze. It was an interesting letter. I won't tell you her name. We don't want to get her into any trouble. She was worrying a lot about this.

How many people are being RIF'd or losing their jobs at the Department of Agriculture because of the Gramm-Rudman sequester order?

Secretary LYNG. I don't have that. Steve, do you have that?

Mr. DEWHURST. No, sir; I'm not aware that there are any RIF's or permanent layoffs of employees as a result of the sequester. There may be some temporary furloughs of a few days.

Senator COCHRAN. Well, I didn't think that anybody was losing their job as a result of this order, and I wanted to be able to answer her letter and tell her that if that is true.

As I understood this, there were going to be some temporary adjustments made and maybe some furloughs would occur, but nobody was going to be fired as a result of that sequester order; isn't that right?

Secretary LYNG. That's what I've understood, too, Mr. Chairman.

It affects agencies differently with an across-the-board 4.3-percent cut. In those agencies where virtually all of their money goes to people, they may have to have some furloughs and reduction in overtime and other things to make that adjustment. But no one needs to be terminated because of that, Mr. Chairman.

Senator COCHRAN. I thank you, Mr. Secretary.

Secretary LYNG. Thank you.

Senator COCHRAN. Senator Kasten.

FOOD SECURITY IMPROVEMENTS ACT

Senator KASTEN. Mr. Chairman, thank you very much.

Mr. Secretary, my understanding is that the USDA, OMB, and the other interested departments and agencies have signed off on the Food Security Improvements Act. Why is it that the delay continues? Why has not this bill been signed into law, Mr. Secretary?

Secretary LYNG. I don't know, Mr. Kasten. The President's press secretary last week announced that it would be signed. It was my understanding that this would be signed promptly. I haven't any insight as to what is going on there.

Senator KASTEN. As I had mentioned, Mr. Secretary, in my opening statement, we need to get this matter taken care of. Congress has acted. A decision has been made. We need just one more signature to let the farmers know what they are going to have to live with for the rest of the year. I hope that you can help us to get that signature.

I also want to clarify something about the legislation itself, Mr. Secretary.

As I said in my statement, it is my intent and of the other members and Senators who worked on the dairy section, that it would be retroactive to March 1. The point is to avoid cuts in the farm income resulting from the cut in purchase prices.

Do you see any problem in making the repeal of the reduction or the 55-cent cut in the purchase price retroactive to March 1?

Secretary LYNG. It's my understanding that that is the intention of the Department. I see no problems with it.

The efforts that you and the leadership made in getting this seem to be adequate. They can be fully implemented by the Department as soon as that legislation is signed.

Senator KASTEN. Mr. Secretary, thank you. I'm pleased that even with this delay, what we are saying is that we are going to be able to make it retroactive to March 1. There are the 1 or 2 days that we have missed now because of, I don't know, a bureaucratic snarl-up, and I don't know exactly what happened, but, in fact, we can make it retroactive to March 1. That would be important.

I simply want to urge that this bill be signed as quickly as possible because it is important.

Thank you, Mr. Secretary.

Secretary LYNG. Thank you.

Senator KASTEN. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

The Senator from South Dakota has asked permission if he could ask one question. He says that the answer could be yes or no. We will take him out of turn because of another conflict at a hearing that he is chairing.

Without objection, we will recognize the Senator at this time.

Senator ABDNOR. Thank you, Mr. Chairman. I certainly want to thank the Senator from Iowa and the Senator from Florida for allowing me to do this.

First, I want to say I look forward to working with you, Mr. Secretary.

Secretary LYNG. Thank you.

Senator ABDNOR. I know that you have a real feel for agriculture. Hopefully you can help us with our message.

Secretary LYNG. Yes.

Senator ABDNOR. About this time last year there was a provision in the budget, an assumption, whatever you want to call it, that REA was going to be phased out over a 6-year period and they were going to raise interest rates. After working with Mr. Bergland on one side and with Mr. Stockman on the other we finally got this group to agree to a compromise saving REA.

I still have letters which we all signed. I thought that the problem was taken care of once and for all, but here you are trying to do the same thing that we agreed not to do last year.

I, for one, am going to insist that what we agreed to as gentlemen and what we signed our names to is upheld. I just can't imagine reneging on this.

Are you familiar with that whole operation?

Secretary LYNG. No, Senator; I must confess to you that I am not.

Senator ABDNOR. Well, I'm one of these people that when I agree to something, I always assume that someone's word is pretty good. That is the way we operate out in South Dakota. I thought that this was something where all sides had to give, that it was working out just fine, that everyone seemed pleased. I'm sure had they come along with the sequestering of the 4.3 percent that anyone would have argued for the exemption for REA, but a phaseout is not what we agreed to at all.

I'm going to be causing a lot of problems over this, I want you to know. I hope, as a matter of fact, that you think like I think, that our word is our word. I realize that you were not the Secretary of Agriculture then. I'm going to need all of the help that I can, because I think that we have a commitment that this administration should be bound to.

I don't know how the rest of these gentlemen feel on this issue. I just want to serve notice that I, for one, am not at all happy at what I see. I'd like to have your help on this. I just wish that you had been the one sitting in on these agreements instead of the other individuals.

Thank you, Mr. Secretary.

Secretary LYNG. Thank you, Senator.

Senator ABDNOR. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you very much, Senator.

The Senator from Florida.

CITRUS CANKER

Senator CHILES. Thank you.

Mr. Secretary, I want to welcome you to the committee. This is the first time that I have had the chance to question you since you have been named Secretary.

Secretary LYNG. Thank you.

Senator CHILES. I certainly want to congratulate you on that appointment. I think it is a good appointment. We are delighted to see you as the head.

For the last 6 months many of us from Florida have been fighting tooth and nail to get the Department of Agriculture to pay claims for citrus canker reimbursements incurred under the joint Federal-State Emergency Canker Eradication Program.

The Florida growers entered into the program in good faith expecting the Government would uphold its part of the bargain. Many growers now find that because they have not received their reimbursement money that their businesses are on the verge of bankruptcy.

It seems that every time the Department proposes a method for the reimbursement it runs into a buzz saw. I understand the latest proposal is one that has been met with considerable opposition.

I know that one of the proposals, of course, was to reprogram some brucellosis money. That gave the fellow that sits on my right, Senator Cochran, heartburn. Now you propose doing away with the lab in Iowa. That gives the fellow on my left, Senator Harkin, a little heartburn. Of course, I sit in the middle feeling heartburn from all of our citrus people that can't get their money.

Since this matter has been dragging on for 6 months, and for the sake of a fair and swift resolution of the matter, why hasn't the Department used the Commodity Credit Corporation funds on reimbursement?

Secretary LYNG. I think that I will let Mr. Dewhurst answer it because he was involved. He will get the words straight. I understand what happened. I'm not sure that I'll get all the phrasing correct on that.

Mr. DEWHURST. Well, Senator, the reason why we have not used the Commodity Credit Corporation is for the simple reason that the use of that authority increases Federal spending. The administration does not want to increase Federal spending above the budgeted levels. So we are confronted with tradeoffs, reprogrammings, or whatever to meet these needs.

Senator CHILES. Well, we started off using those funds for the avian influenza. We used some of those funds for grasshoppers until we had a line-item appropriation.

Is the Department then proposing a line-item appropriation for this?

Secretary LYNG. Even before I left when I was Deputy Secretary, we used those funds for citrus canker, as I recall, Senator.

Senator CHILES. Yes.

Secretary LYNG. And over the years we used it for the exotic Newcastle disease and I think hog cholera at times.

In this instance the administration, in the effort to more or less freeze expenditures, has disapproved the use of the CCC funds. We have not submitted a request.

Senator CHILES. Mr. Secretary.

Secretary LYNG. Yes, sir.

Senator CHILES. Mr. Secretary, I hope that you will understand that, to our citrus growers, this sort of amounts to a change in the rules in the middle of the stream. They are in the program. They were told that the Federal Government was going to put a match-up. The were told that if they burned and destroyed their trees that they would be paid. That was something that the Federal Government participated in. We sent people down there to help to designate which areas the infection was in, and what areas participated in the decisions of how the trees should be destroyed, and then what should be done.

Then, suddenly, they participated in all of the actions and paid part of the money and they then said, "Well, we quit. We are just not going to pay any more funds." I have a hard time explaining that to my growers as to how their Government operates in that way. They want to know if the Congress did something to change the program and to cut off the funds. Certainly we didn't. That is just kind of hard to explain. This is especially difficult when this is money that is already due, Mr. Secretary.

Secretary LYNG. I certainly agree with that.

Senator CHILES. Yes.

Secretary LYNG. That is the reason that I felt the actual priorities under these circumstances in not using CCC funds for this, that they required that we find some funds that were not scheduled to be expended as quickly or, in any case, where there was not a debt involved. Here there was a debt of the Department of Agriculture. This is the reason that we made this very difficult decision. I made this decision to then transfer those funds from the laboratory, the actual commitment, and——

Senator CHILES. Mr. Secretary, that the——

Secretary LYNG. This is in the sense of a contract here, whereas we had a clear commitment to those people, and we had a debt to those people in Florida.

Senator HARKIN. Would the Senator yield for just a second on that?

Senator CHILES. Yes.

Senator HARKIN. Thank you, Senator.

COMMITMENT OF FEDERAL GOVERNMENT

What I heard you say, Mr. Secretary, and from what I heard from the Senator from Florida is that the Federal Government made a contract. The Federal Government committed itself. This administration and the Government committed itself to indemnify these citrus growers for the action that they took in Florida to halt the spread of citrus canker. They didn't make any agreement saying, "If we can find the money to transfer. . . ." They were given an absolute commitment that if they were to do certain things the Federal Government was going to indemnify them.

The commitment for the outlay—and I want to use that word here—the commitment for the outlay of the money was made, Mr. Secretary.

I think it is really unconscionable for you to go and raid another line-item appropriation to obtain that money. The commitment was made. Now you're saying that we are going to back off on another commitment. We are just going to find some way to transfer this from another line item of appropriation.

So, quite frankly, I think, Mr. Secretary, you are on very shaky legal ground. When it is my turn to question you, I'm going to read the law to you just in case there is any question about this. You are on very shaky legal ground.

Thank you, Senator.

Senator CHILES. I hope, Mr. Secretary, that you will pursue a method of reimbursement. I say that because, again, I run into the problems with my good friends here. I understand. I would feel, I think, the same way with someone trying to take some money out of an appropriation that we had set up. But we feel like we have been kind of left on this and the issue of continued USDA participation.

Let me ask you this.

Secretary LYNG. Yes.

SUPPORT OF HOUSE SUPPLEMENTAL REQUEST

Senator CHILES. Would you support the House supplemental request for reimbursement moneys? We know that a supplemental is coming. The chairman of the House Agriculture Committee said that he is going to make a proposal to come into that. We have some assurances over here that supplemental will be available. We will try to put some funds in over on this side, Mr. Secretary.

Secretary Lyng. No; I don't think that we would, Senator. There are a number of things in that supplemental in the form I've seen where I believe that the administration would not accept that supplemental.

Senator Chiles. Well, I hate to hear that.

The issue of continued USDA participation in the canker program is also of great concern to me. We see in the general supplemental bill—and we are talking about addressing this in the Senate—we expect also to use a general supplemental to address the canker program. I certainly hope that explicit direction will be given to the USDA to maintain its role in the detection and control of the disease and in working in a cooperative arrangement with the State of Florida and the citrus industry.

Given this congressional support, do you believe that the Department should maintain its role in the citrus canker eradication program beyond the announced March 31 pull-out date, Mr. Secretary?

Secretary Lyng. Yes; this is correct if I understood the question correctly. That program has been terminated effective March 31.

Senator Chiles. What I'm saying is that if the Congress gives directions that the program should be continued beyond that date, will the Department maintain its role?

Secretary Lyng. You run up against the problem, Senator, of Gramm-Rudman spending and adding to the spending. Now the administration is determined not to add to the spending in this way. It would require finding the funds somewhere else.

We have suggested the reprogramming, and we find that when you take money away from some other place on what we consider to be a lower priority of spending, we run into tremendous objections. If you don't do that the only other way to do it is to add to the spending. The administration is trying very hard to limit that total spending.

Senator Chiles. Well, I understand the problems that you have. We find that in every area that we go.

Secretary Lyng. Yes.

Senator Chiles. But I wouldn't think that the Department would use that as a reason to say that it is going to fail to participate in what could be a program that could be a national disaster in dimension as the canker could be if it were to take off from Florida and get into the rest of the citrus and into the rest of the tropical fruit that we see that it could get into. That would be just like saying if there was another avian influenza outbreak that the USDA wouldn't participate in this.

REPROGRAMMING OF FUNDS

Secretary Lyng. No; I didn't say that. I said that it would require reprogramming of funds. It is very much like a family that what it needs to do if it has some kind of a serious problem that develops that you hadn't planned on, then you have to take care of that. You have to find the funds to do it or to increase your debt.

What we are trying to do here is not to increase the debt, but find funds from some other lower priority item or something that can be deferred or postponed.

Senator CHILES. I just want to tell you that on behalf of all of the Florida congressional delegation the strong interest and commitment that we have in trying to help our State contain what we see as a potential disaster to one of the highest money crops we have in the State of Florida. This is certainly something that helps in the tax revenue that the Federal Government receives and what could be, then, a national and an international problem if we allow this to spread. We certainly hope that you will work with us on that to try to help us use the resources of the Federal Government to continue to try to contain and eradicate this terrible problem that we have, Mr. Secretary.

Secretary LYNG. We will certainly do that. We feel strongly that is an obligation. We would like to give that a high priority.

Senator CHILES. Thank you.

Secretary LYNG. Thank you, Senator.

Senator CHILES. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

The Senator from Iowa, Senator Harkin.

Senator HARKIN. Thank you, Mr. Chairman.

Mr. Secretary, I have a couple of items that I want to cover.

Secretary LYNG. Yes.

ISSUE OF TRANSFER OF MONEY

Senator HARKIN. Obviously I would like to get into a little bit more in depth the issue of the transfer of the money from the proposed soil tilth laboratory at Iowa State University to the Citrus Canker Indemnification Program.

Secretary LYNG. Yes.

Senator HARKIN. I guess what I would like to ask is whether or not you examined all areas in your Department to see if there was money anywhere else that could be transferred to this?

Secretary LYNG. I didn't personally, Senator.

Senator HARKIN. Did anybody?

Secretary LYNG. The staff people did, yes.

Now the reason that this was chosen was because it was at that state of development that no funds were planned to be expended this fiscal year. It was a long-term project in the planning. It didn't have anything like the crucial priority that paying this debt to the citrus people in Florida was.

Senator HARKIN. What you're saying is that your staff had examined other areas.

Secretary LYNG. Yes.

Senator HARKIN. Did they give you any kind of a list of the areas that you could pick from to transfer the money, Mr. Secretary?

Secretary LYNG. As I recall, I was given this as the one that was about the right amount of money and it would work and cause as little disruption as they could find.

Senator HARKIN. But you took one recommendation and you followed it. Did you ask to see if there were other areas where money could be transferred?

Secretary Lyng. I don't recall asking.

Senator Harkin. You don't recall asking?

Secretary Lyng. No.

Senator Harkin. Do you know if there are any other areas where you could transfer it?

Secretary Lyng. I presume that there are, Senator.

In the opinion of people in whom I have great confidence, this was chosen as one that would be as little disruptive as they could find.

Senator Harkin. I wouldn't want to presume to tell the Secretary of Agriculture how to run his office, but it would seem to me that in an office that big that you might want to ask for different recommendations to see if there were any other areas, rather than taking the first one that came across your desk.

I'm concerned, because this was a line-item appropriation that is being transferred.

Secretary Lyng. Yes.

Senator Harkin. I have got to believe that there are a lot of other areas in the Department of Agriculture's immense budget where money could be used for this purpose rather than just here on this.

Again, what I hear you saying is that you didn't look at anything else. This was a recommendation that was given to you by the staff to transfer the money and you accepted it and did it without examining whether there were any other areas that could have been less disruptive or that could have been more logically used than to transfer money from a tilth laboratory.

As I said earlier, this was an indemnification program and a contract made by the Federal Government. There shouldn't be any question about whether or not there were appropriations for it or money for it.

TRANSFER OF MONEY TO MEET EMERGENCY

That is really my second question. The law provides that you have the authority to transfer this money to meet an emergency. What is the emergency?

Secretary Lyng. I'm sorry.

Senator Harkin. What is the emergency?

Secretary Lyng. I'm sorry. I didn't hear the last part of that.

Senator Harkin. The law says that you have the power to transfer money as you did to meet an existing emergency, Mr. Secretary.

Let me just read the background for you.

Secretary Lyng. Yes.

Senator Harkin. This law was passed in 1981. It is Public Law 97–46, approved September 25, 1981. It was passed, and I remember it very well because I was on the House Agriculture Committee at the time. It was passed to meet the emergency that existed in California because of the Mediterranean fruit fly.

The reason that this law was drafted, Mr. Secretary, and I'm sure that you know this, but I'm going to read this for the record, was because the previous law limited transfer of money for emergencies only to meet emergencies from animal contagious or infectious diseases from animals and poultry.

Let me just read to you what the chairman of the committee said on the floor of the House explaining this bill on September 9, 1981. It said that it would, referring to the bill, H.R. 4416, which eventually became Public Law 97–46, that it would put into permanent law the authority to transfer funds otherwise available to the Department for use in emergency situations that threaten agriculture production.

It says:

> As I have said, the funds may, under current law that then existed, be transferred and used for the arrest and eradication of infectious or contagious disease of animals or poultry. Our bill would retain this authority and would extend it to cover the emergency arrest or eradication of plant pests.

Now that was the purpose of the bill. It was quite clear in the legislative history surrounding it.

Again, I ask you, what is the emergency that had required you to transfer the $11 million?

Secretary LYNG. The emergency was proclaimed, as I understand it, by my predecessor well over a year ago. That was to eradicate the citrus canker in Florida. That gave us the legal authority to do this as that legislation that you're referring to suggests or provides for.

Senator HARKIN. So the emergency was to arrest the spread of citrus canker and the farmers there were asked to destroy some of their crops?

Secretary LYNG. That's correct.

Senator HARKIN. And some of their trees.

Secretary LYNG. Yes.

Senator HARKIN. And they would be provided with the indemnification.

What I want to know is why wasn't the money transferred at the time? Why wasn't there a provision made, for example, in the appropriations or something else to provide them with the money?

FUNDS NEEDED FOR FLORIDA CITRUS GROWERS

Secretary LYNG. I think there were some efforts prior to the time that I came to the Department to obtain this money in a number of different ways. I can't speak to what might have been involved in the efforts to get it into the budget or to get an appropriation for it. I do know that letters were sent to the chairman of this subcommittee and to a similar subcommittee in the House of Representatives, suggesting there would be some reprogramming of brucellosis and the other pest control or disease control efforts. Those were not acceptable to the chairmen of the committees. So a further search was made to find some place where we could get some money and that had a lower priority, at least in our view, and to then fulfill this obligation that was clearly, and that there was no question about it, that these people had been assured by the Government they would be paid this indemnity which was part of the agreement to remove those citrus trees.

As the Senator from Florida pointed out, they needed the money. They desperately needed the money.

That is the reason that we proceeded this way, Senator Harkin.

Senator HARKIN. You needed the money last year or this year?

Secretary LYNG. We needed the money. I have only been here a week on this job, Senator. They needed the money; they have needed it for some months.

Senator HARKIN. That is very true. They have needed it for quite a few months.

What I'm saying is that if this administration made a commitment and a guarantee to those farmers then that money should have been made available a long time ago so that we wouldn't have gotten into this bind. I am sure that the Appropriations Committee would have entertained that, that there would have been adequate support for that. There would have been no problem at all.

Yet you come up to a point like this and you look for some place to transfer a line-item appropriation that we have already transferred money for, that we already spent money and we had already appropriated the money for the tilth laboratory. It wasn't just a recommendation. It was actually an appropriation that you're now wiping out. It almost seems that you are taking the authority to line item veto something, which I don't think the executive branch as yet has.

Secretary LYNG. It's my understanding that we did have the legal authority.

This question has been asked by the Subcommittee on Agriculture Appropriations of the House.

Within the next day or so we will be submitting a legal justification or a legal opinion on that. I would be happy to send you a copy of that.

Senator HARKIN. I'd like to see it because I think that you may, under Public Law 97–46, that you may have the authority or, may not, that you do have the authority to transfer money to meet an existing emergency.

I think under the existing law and precedents, I don't think that you have the authority to transfer specifically appropriated moneys for specific items. But out of the general accounts, I believe you do. That is why I think you are on somewhat shaky legal ground. I'd like to see your legal justifications. We might want to pursue that further.

Secretary LYNG. Yes.

SOIL RESEARCH

Senator HARKIN. There was an article that appeared in the Des Moines Register this morning, a newspaper. I will read you the headline. You probably can't see it from there. It says, "Lyng Says Reagan Plans To Restore Money to ISU Soil Research."

You said that the Reagan administration would support the request to restore Iowa's request to restore money for the $11.1 million soil research center at Iowa State University next year.

Are you saying that we have an absolute firm commitment from the Reagan administration that they will support the $11.1 million next year?

Secretary LYNG. No, Senator.

In visiting with the Governor, I was asked if this could be considered for inclusion with the reinstatement. I said yes, that I would personally try to see that this was done, Senator Harkin.

Senator HARKIN. But the Reagan administration has given no assurance.

Secretary LYNG. I couldn't make that kind of a commitment, Senator.

Senator HARKIN. Well, the newspaper article seems to say that you told the Governor that the Reagan administration would support it. So now you're saying that no, you aren't going to support it.

Secretary LYNG. I've said what I said to the Governor. I explained to the Governor as I explained to you that I regret the need for this. I don't regret the decision. I think that we made the right decision. I regret the fact that we had to make this in order to satisfy this more crucial need on the part of those Florida producers.

This planned laboratory was something that had been approved. It seems to me that it was the logical thing for me to say, that I would try to get that money replaced in the future. That is what I said to the Governor.

Senator HARKIN. Let me see if I heard that right.

Secretary LYNG. Yes.

Senator HARKIN. You said that you would support it in the future, but not necessarily next year?

Do we have your commitment? Do we have the Reagan administration's commitment, as this article seems to point out, that you will support the $11.1 million next year for this, Mr. Secretary?

Secretary LYNG. I said that I would, as Secretary of Agriculture.

You understand, Senator, it is impossible for a single member of the administration to commit the administration on this.

Senator HARKIN. I know, but you could ask the President. You are on the Cabinet.

Secretary LYNG. I didn't. This was a casual conversation yesterday with the Governor. I'm telling you what I told the Governor.

Senator HARKIN. That you would, but you have not talked to the President. You have not gotten assurance that he would support it?

Secretary LYNG. I have not discussed it with the President yet.

Senator HARKIN. Let me read the letter that you sent to the chairman of the Appropriations Committee, Senator Hatfield, dated last week, Thursday.

You said this, and let me just read it back.

> The $11.1 million would have been used for the proposed National Soil Tilth Center at Ames, IA. Funds for the construction of the center were appropriated by the Congress in fiscal year 1985. The planning is almost completed for the center but no funds have been committed for construction. We believe that the present ARS research facilities and staff devoted to this type of research represents a satisfactory balance with other lines of research supported by the ARS budget. Accordingly, we view this

> laboratory as a relatively low priority use of scarce budget resources which more appropriately could be used to fund the $11 million in outstanding citrus canker claims for indemnification.

LOW PRIORITY OF TILTH LABORATORY

That language seems to indicate to me that you don't think very much of the tilth laboratory. You said there is already sufficient research and staff devoted to this. Is there, Mr. Secretary?

Secretary Lyng. In terms of priorities, I have said over and over here this morning that we consider this laboratory a low-priority item relative to the needs of the citrus canker. That is the intent of what we are trying to convey with this letter, that the funds had not been committed. That is, there was no contract that had been signed.

I'd rather not get into a lengthy discussion with you, Senator, as to where or what the needs for this laboratory are in relation to other priorities. But we will always try to, at a time when we are trying to reduce Federal expenditures as much as we possibly can, that we will try, and we must set the priorities.

Senator Harkin. Excuse me for interrupting you, Mr. Secretary.

Secretary Lyng. Yes, Senator.

Senator Harkin. The Congress has priorities, too. We appropriated the money for this, did we not? Are you telling me that our priorities mean nothing here? We have priorities, too, and we thought that this was a priority item to have the tilth laboratory.

Again, I read you your own words.

> We believe that the present ARS research facilities and staff devoted to this type of research represents a satisfactory balance with other lines of research supported by the ARS budget.

Now that seems to indicate to me that you think that this research can be handled elsewhere.

Secretary Lyng. Well, perhaps to some extent it can. I'm not totally familiar with that.

This letter was written to show and to convince, as I was convinced, that we did not need to give a high priority or as high a priority to that laboratory as we did to paying the debts we owed in Florida.

This is keeping in mind, Senator, that we are doing this within the context of the amount of money that we have that is available without adding funds.

EXAMINATION OF OTHER AREAS FOR FUNDS

Senator Harkin. That is why I had asked my first question here. Did you examine any other areas? You told me that you didn't. So I don't even know if there were other areas in which the money could have been transferred. I don't know the answer to that question. You seem to indicate that you didn't get that kind of information from the staff either. You just picked one. That was the end of it right there. I have got to believe that there were other areas that could have been transferred. But we have had no indication as to what those areas might have been.

Secretary LYNG. You misunderstood me a little.

We had some discussions about other possible places. I told you that I didn't have a list prepared of alternatives because others are better equipped to make that kind of an analysis and they have more time to do it than I had.

We had discussed the request to transfer the funds from brucellosis eradication and from other places which had been proposed. This seemed to be a lower priority item and one that could be deferred.

Senator HARKIN. I note that the administration hasn't been very favorable to the brucellosis program in the last 5 years either. I know that.

I guess that I was just wondering about other areas. I haven't heard of any. You say that you would support the $11.1 million. You say that you would, but you're not committing the Reagan administration.

Let me ask you this, Mr. Secretary. We've got a supplemental coming up. Would you support the inclusion of the $11.1 million in the supplemental?

Secretary LYNG. I think that I would have to stay with the administration's policy, which is not to increase spending at this time in an effort to get the deficit under control, Senator.

Senator HARKIN. So what you're saying is that we can just kiss off the soil tilth laboratory?

Secretary LYNG. At this point, yes.

Senator HARKIN. That is basically what you are saying, Mr. Secretary?

Secretary LYNG. At this point, yes.

Senator HARKIN. It is done. Well, I don't know. We'll see about that. We will see about it.

I guess that the headline that says, "Reagan Plans To Restore Money to ISU Soil Research," that this is not your fault, but the headline writer was very wrong in writing that.

FMHA OPERATING LOANS

The next section that I want to get into is Farmers Home operating loans.

Secretary LYNG. Yes.

Senator HARKIN. The President announced with great fanfare that he was going to transfer $750 million for operating loans. I think that this was last week, if I'm not mistaken. This was from the emergency fund to the direct operating loan program.

I received a couple of calls from farmers who said that they were being told that while their operating loans had been approved by Farmers Home, that it still may not be funded.

We talked to the State director and to others. We found that, and this was to see what Iowa's allocation of the $750 million would be, and what we had found out is that, unlike other Farmers Home funds, this money was going to be held in a national pool here in Washington and not be allocated to States. Is this so?

Secretary LYNG. I'm not familiar with that.

Senator HARKIN. Is there anybody with you that would know that?

Secretary LYNG. I don't think that we have anyone here from the Farmers Home Administration this morning.

Senator HARKIN. I just find that very disturbing if that money is being held here. That is what I've been told.

Maybe I could submit to you some questions in writing that you could respond to.

Secretary LYNG. I'd be happy to respond to them, Senator Harkin.

Senator HARKIN. Because now if the operating loans have to be approved at the national level, I think, first of all, that would be ridiculous, and I'm just wondering if there is a commitment to use the $750 million. Evidently it was transferred. The President said that he was going to transfer it. But now it is being held at the national level. What are the guidelines? What guidelines are going to be used for this? Is this just for existing borrowers?

Secretary LYNG. It isn't restricted to existing borrowers. I know that. I have discussed that. We would try to also answer any questions you submit. We would do it promptly, Senator.

FUNDS HELD IN NATIONAL POOL

Senator HARKIN. I've never heard of any such thing as being held in a national pool here and without any guidelines as to how it is going to be used.

Secretary LYNG. I'm sure that they have guidelines as to how it is to be used. I suspect that, rather than allocating it to States in a rather inflexible way, that by keeping some control in Washington we can better respond as to where the needs develop.

As you know, Senator, the needs develop as the planting season comes along. It is hard to predict. If you give each State a quota, you find that some States don't use their quota and others run short. I suspect that is what is involved here, Senator.

Senator HARKIN. I'm informed that right now under the formula that when funds are allocated to States, if the money is not used it is repooled and it is sent back out again. That is done all of the time. But what this does mean is that the money is initially allocated to the States so there isn't this long lag time of getting the money. Obviously these are operating loans.

Now this is the second week in March. If this is held at the national level, I'm concerned that by the time that it gets out there, we are going to be past the planting season and that some of these borrowers, especially those that we call orphan borrowers, and I am glad to hear you say that it won't be restricted to existing borrowers, because there are some borrowers out there that because of a bank failure or problems with the Farm Credit System, that they can't get this money. So they are new FmHA borrowers. They can certainly use some of this.

If this has to go to Washington for approval, again, I wonder what the guidelines are if you are not going to allocate it to the States on the basis of the previous allocation. The need was obviously taken into account in those previous allocations. It was allocated on the basis of use, the need, of how many farmers were out there using it. If it wasn't used, of course, it was repooled and reallocated again.

Are we going to have a different definition of need now for this money than we already have in existing law, Mr. Secretary?

Secretary Lyng. No; we will not.

Senator Harkin. I'd like to know the answer as to whether or not it is going to be held, or if it is really being held in the national pool. It is not clear to me. I have been told that. You obviously don't know that right now either, Mr. Secretary.

I will submit a couple of questions and I would like to have you tell me whether or not it is in that national pool, Mr. Secretary.

Mr. Secretary, let me just say that I am disappointed in that. I would hope that the $750 million would have been so allocated out on the same basis as everything else and out to the States in a hurry.

I'm also disappointed in the fact that it looks like the administration has basically pulled the plug on the soil tilth center.

However, I can assure you that we will continue to try to put the money in the supplemental appropriations this year. Then it will be up to you to decide what you want to do with it.

I'd also like to see the legal justification, because I still think this is on some shaky legal ground in transferring definitively appropriated moneys rather than from a general pool.

Thank you, Mr. Secretary.

Secretary Lyng. Thank you.

SUBMITTED QUESTIONS BY COMMITTEE MEMBERS

Senator Harkin. Thank you, Mr. Chairman.

Mr. Chairman, I don't have any further questions. Can I submit some questions to the Secretary regarding the WIC Program? If he would respond to those in writing I would appreciate it.

Senator Cochran. Yes.

Mr. Secretary, there are other members of the subcommittee who had conflicts this morning and who are not able to be here. Senator Mattingly is chairing a meeting of the Military Construction Subcommittee of Appropriations. He has a statement which I will ask unanimous consent to have included in the record at the conclusion of this hearing. If he does have questions, they will have to be submitted in writing. We hope that you will respond in a timely fashion.

I would also state for the record that, without objection, the statements and/or questions of Senators McClure, Burdick, Bumpers, and Lautenberg will also be included in the record. I hope that you will be able to respond to them.

Secretary Lyng. Yes.

DAIRY QUARANTINE IN ARKANSAS AND MISSOURI

Senator COCHRAN. Before we adjourn the hearing, let me ask you about a problem that has come to our attention as a subcommittee that may need some prompt infusion of funds. That relates to the dairy quarantine down in the Arkansas and Missouri area. This apparently is a very serious problem, and it could prove to be costly to the Federal Government if these farms are eligible for Federal assistance.

I would like to know if you anticipate any need for Federal funds to help to deal with that problem? If so, what accounts in the budget will those funds come from?

Secretary LYNG. We don't have all of the facts yet. No one has all the facts yet on that very serious situation which encompasses dairies in at least three States: Arkansas, Oklahoma, and Missouri.

Just today, a task force from the Department of Agriculture has been sent to that area to do some fact finding and to see what the situation is.

With the press accounts, and in talking to some of the Senators and Congressmen from that area, it sounds as if there is the potential for a very serious loss by individual dairymen there.

As to the total scope of it or how long these dairy herds would be contaminated, or even the extent of the public health hazards involved, this has not been, as I understand it, fully determined. We are going to work on that and see what the best course of action might be.

Senator COCHRAN. We would appreciate it very much if the subcommittee could be kept advised and consulted with respect to any transfer or reprogramming of funds to help to pay the cost of any claims that may arise from those dairymen.

Secretary LYNG. We would be happy to do that for you, Mr. Chairman.

OFFICE OF TECHNOLOGY ASSESSMENT STUDY

Senator COCHRAN. I happened to read this morning in the New York Times a very interesting article on the subject of a report from the Office of Technology Assessment dealing with the trends in agriculture by reason of the new technologies that are emerging, the biotechnology and the other discoveries that are being made, the utilization of bovine implants to increase the productivity of dairy herds and the like. The story covered what this means in terms of Federal Government programs and the number of farms that will be needed and the number of people engaged in production agriculture—laborers as well as the farm managers and farm operators.

I would encourage the Department to look at that and to review the OTA study. I haven't seen the study, but judging from the article, it is a piece of work that should be reviewed very carefully. I don't have any conclusions to make. Of course, we've seen transitions occurring in agriculture over a period of years.

They talk in the article about the mechanization period from the 1920's to the 1950's, where we saw a gradual transition on this because of farm equipment discoveries, moving from the mule-drawn plows to tractors and the like, and the impact that had at the time. Then, beginning in the 1950's, the pesticides, the chemical revolution, brought even greater changes to agriculture. Now, new technologies are being utilized in agriculture to improve productivity.

It suggests that the farms are going to be bigger and fewer in the future. It concludes, as I read the article, that this is inevitable.

Now I think that we do need to carefully review that study and be sure that our programs and our policies are thoughtful policies to try to help America adjust to the inevitable changes and to try to ease the impact of that on the individuals and their personal economic situation.

I simply bring that up to your attention. You may have read it, too. You may know more about it than I do. You probably do.

Do you have any reaction to that?

Secretary LYNG. At our staff meeting this morning our Assistant Secretary Thompson, who is sitting on my left, brought an edition of that study. It is a large book with about 400 pages. It took 3 years. It is going to provide ample challenges for us in the Department to look at it and to perhaps be critical of those places where we disagree.

I think that the general concept of the technology having an impact is something that we all know about. All that we need to do to get some feel for that is to look at that producer of whatever it may be, a dairy or chickens or hogs, and what these yields are and the cutting edge of technology and what the costs are. Then if you take those and average that among all of them you'll see that the change will be terrific. We will take a look at those that have not adopted the technology.

It is particularly apparent in the dairy industry. It has been one of the things that causes so much distress with surpluses even as we lower the support levels of the dairy products, here we still continue to get surplus production. That, I think, is largely because of technological improvements in that industry. We are going to see a lot of that. So it is a good thing to have the study. I think that it will be something that we will all want to spend time to consider.

Senator COCHRAN. I am happy to welcome to the hearing our distinguished ranking minority member of the subcommittee, Senator Burdick from North Dakota.

Senator BURDICK. Thank you, Mr. Chairman.

Senator COCHRAN. Senator Burdick.

Senator BURDICK. It is good to see you this morning, Mr. Secretary.

Secretary LYNG. Thank you.

CONSERVATION PROGRAMS

Senator BURDICK. I notice in your testimony, Mr. Secretary, you state that the budget maintains a high priority interest or emphasis on a range of programs. You specifically mention conservation.

Secretary LYNG. Yes.

Senator BURDICK. Yet you propose to terminate all of the cost-share programs under the SCS and ASCS. This cut is now roughly $400 million for 1987.

In addition, you propose to rescind almost $70 million for 1986.

Do you feel that these programs have been ineffective, Mr. Secretary?

Secretary LYNG. No, Senator. It is the intention of the administration to remove some of those programs and terminate some of them as we move more into the conservation reserve programs as are spelled out in the 1985 farm legislation, Senator.

Senator BURDICK. What program would take the place of the conservation programs that we have been accustomed to in the past? To what other programs are you referring to replace them here?

Secretary LYNG. I'm not prepared, Senator, to discuss that in detail. I haven't been that familiar with the programs that are being eliminated. I just don't feel like I am qualified to do that. I'd be glad to ask the Assistant Secretary who covers that area or the Soil Conservation Administrator in the Soil Conservation Service to come before this subcommittee. But I don't think that I'm qualified to give you the detailed information you would like to have.

Senator BURDICK. I wonder if one of those gentlemen could supply the committee with the material?

Secretary LYNG. They'd be happy to.

EXPANSION OF AGRICULTURAL EXPORTS

Senator BURDICK. Thank you. I understand in your confirmation hearing you indicated that expanding agricultural exports would be a top priority. It is a top priority of mine, too.

Secretary LYNG. Yes.

Senator BURDICK. What's your plan?

Secretary LYNG. Well, the farm bill of 1985 was constructed, I think, by the Congress with an effort, because there is widespread interest in recovering the export volume that we have lost, that the bill provides a number of tools for the Secretary of Agriculture which I think will have the effect of increasing exports if they are properly implemented.

Not only is there the Export Enhancement Program and the Targeted Export Assistance Program, but the lowering of the loan values, the loan levels, for the basic commodities, will have the effect of making us much more competitive in the world markets. We are able to do that without jeopardizing the farm income by increasing the size of our deficiency payments.

I think that it will take a bit of time. But with an effort, a vigorous effort, we will see a year from today that things will look much better. Two years from today I think that they will be much better.

Senator BURDICK. Mr. Secretary, I certainly hope that you are right.

One of the problems that we have is that every time that we lower the price, our competitors will lower their price. I read an article today about Canada willing to meet our lowering export price. It isn't going to be as easy as one would think, because Canada can also lower its export prices; is that not true?

Secretary LYNG. That is true. We can expect that, because they have the stocks. The world stocks for most of these commodities are very, very heavy. People are going to meet the competition.

I think that it is interesting to look at the planning that is going on in Canada and elsewhere, in Europe and in Argentina. They are somewhat concerned about their ability to continue to produce as much if the world market goes down, as it would appear to be.

We are going to just have to go out there and scrape to get that volume of business. Much of our losses have been taken up by other nations. As we have reduced our acreage, as you well know, in the United States, Canada has expanded theirs. We just simply can't tolerate that as a continual thing, Senator.

Senator BURDICK. Mr. Secretary, we are certainly glad to work with you in any way that we can to pick up some export business.

Secretary LYNG. Yes.

Senator BURDICK. You know that.

Secretary LYNG. Yes.

Senator BURDICK. You will find a willing Congress to help you get that business. I think that is very important with the tremendous surplus that we have on hand here, Mr. Secretary.

Secretary LYNG. Yes.

EFFECTS OF GRAMM-RUDMAN

Senator BURDICK. Mr. Secretary, you mentioned in your testimony that agriculture takes the biggest cut in the nondefense sector under Gramm-Rudman, almost 30 percent. I think I agree with you when I say that Gramm-Rudman is hurting the farmers a good deal. Worse still, these farms are getting hit right in their pocketbook because the cuts are coming directly out of their checks, the loans, deficiency payments, and so forth.

Therefore, there is a question in my book of whether this budget is going to be good or whether there is going to be another sequester.

Can you tell me what the future brings?

Secretary LYNG. Yes; I think that it would be nothing short of a disaster if we were unable to achieve acceptance of a budget by the Congress and administration and were forced to go into the sequester. This would hurt agriculture far more probably than almost any other part of the Government.

The testimony that I have submitted to the committee here points out that it is essential that we try to achieve acceptance. I would say acceptance of the President's budget. But at least a budget that is acceptable to the President and to the Congress rather than to go into the Gramm-Rudman sequestering. That would be most unfortunate.

Senator BURDICK. What is the chance, or what are the odds of another sequester order?

Secretary LYNG. I think, Senator, or I would hope that the chances are nil, but I'm not a wise enough man to be able to make that accurate a forecast on that.

Senator BURDICK. I hope you're right.

One more question here in this area.

Secretary LYNG. Yes.

EXTENSION SERVICE BUDGET CUT

Senator BURDICK. It looks to me like the Extension Service would have learned to be appreciated over the years in cooperation with the colleges and so forth, and I notice it has about a 60-percent cut. Can you do anything about that, Mr. Secretary?

Secretary LYNG. This is the proposal that is in the President's budget. It is a painful cut. The Extension Service has many supporters that believe that much or all of what they do should be retained.

In trying to cut a budget to fit the needs of the day and in establishing priorities, this is one that was determined where a cut could be made. It is not uniformly agreed to. We have had many letters, as I think that Members of Congress have had. But it is a difficult thing to cut a budget and eliminate some expenditures. Wherever we try to do that we come up against problems.

Although it is an austere budget, I think that we can now defend it, and I recommend that it be given consideration by the committee.

Senator BURDICK. I'm sure that you will agree with me that it is a tremendously important program, not only for the farmers, but for young farmers and the young people across the country. I hope that we can figure out some way, such as more local participation, that we can keep these programs alive. I hope that you will look at that real carefully in the future, Mr. Secretary.

Secretary LYNG. Yes.

Senator BURDICK. That is all, Mr. Chairman.

Thank you, Mr. Secretary.

Senator COCHRAN. The Senator from Iowa is recognized for an additional question.

FUNDING FOR SOIL TILTH LABORATORY

Senator HARKIN. Mr. Chairman, thank you.

Again, Mr. Secretary, I don't wish to belabor this for too long. I was talking to my staff and others. Perhaps there was one question that I didn't ask you that should have been asked and perhaps developed.

As I understand it, you are saying that the money for the soil tilth laboratory at Iowa State was not going to be expended this year anyway.

Secretary LYNG. It's my understanding that the contracts have not been let on that facility.

Senator HARKIN. So the $11.1 million was not going to be spent this fiscal year?

Secretary LYNG. I don't think that they would have gotten to the point of asking or having outlays.

Senator HARKIN. Then it would have been expended when, in the next fiscal year?

Secretary LYNG. I presume so. Although I don't know that. Do you, Steve?

Mr. DEWHURST. It would have depended on the terms of the construction contract because they would have paid out on a progress basis as construction proceeded. It would have probably been mostly next year, but also the following year. I assume it would have taken a year or two.

Senator HARKIN. I'm interested in how we would score this. If we take money, if you take money, from an account that is not going to be expended this fiscal year anyway but is expended this fiscal year, isn't that additional spending, Mr. Secretary?

Secretary LYNG. I'll let the budget officer answer that question.

Senator HARKIN. It just occurred to me.

Mr. DEWHURST. Well, the Senator is correct.

Senator HARKIN. Go ahead.

Mr. DEWHURST. What you have is additional spending this year that is offset by a spending reduction in the following year.

Senator HARKIN. Wait a minute. Just a second.

If the soil tilth money is going to be put in next year, how is that a reduction?

Mr. DEWHURST. Well, I have no ability to make a commitment to put the money in next year.

Senator HARKIN. That's what I'm trying to get at. If you're telling me that this money will never be approved again, I guess that is really what I was getting at. In other words, you are taking money out of a future account to spend it this year. This is additional spending for this year.

Secretary LYNG. Well, Senator, you are assuming that there would be an added amount of money for the tilth laboratory there and put into a subsequent budget. That isn't necessarily what happened.

What we have done is that we have taken this appropriation and moved it over on a priority basis to the citrus canker problem.

Senator HARKIN. Yes.

Secretary LYNG. It will take a new action to get the tilth laboratory into a budget and get an appropriation. When that happens it doesn't necessarily become additional. It could be that something else is reduced.

Senator HARKIN. Again, I am still talking about the scoring. If the money was not going to be spent this year and now it is being spent, it seems to me that is additional spending under the budget and under the budget limitations that we have; is that not correct?

Mr. DEWHURST. Again, it is additional spending in 1986 and an offsetting reduction in 1987. That proposal was acceptable to the people who keep the books in the executive branch. I frankly don't know how it will be scored on the Hill.

Senator HARKIN. Well, I can tell you how it will be scored on the Hill. It will be subject to a point of order under Gramm-Rudman. That is what would happen.

Again, I just wanted to raise that because, as you know, Mr. Secretary, in my conversations with you earlier on the advancing of some of the CCC loans to farmers so that they could have some money this spring at a decent rate of interest, this falls into the same category.

That was money for next year. If moved up to this year it would have a corresponding decrease next year. Yet, we were told that was not, I wouldn't say permissible, and that's not the word I'm looking for, but that was not something that the administration wanted to do. It would be opposed to that on the grounds of budgetary considerations, I guess. Yet, you've done the same thing here, Mr. Secretary. It's the same thing.

Secretary LYNG. Senator, we owed this money to these agricultural people, to these farm people in Florida and actually based on expenditures that they went to, so it seems to me that there would be no question about the desirability of writing a check and paying them.

Senator HARKIN. When a farmer signs up in a program, that farmer is entitled and guaranteed to get the loan when he will harvest that crop or to harvest that crop. It is the entitlement that he gets. It is the same way as a contract that the Department made with the citrus growers. It is the same thing. As soon as they sign up, they are going to get that loan.

Secretary LYNG. One is more of an entitlement than the other.

Senator HARKIN. One is more than the other? I don't think so.

Secretary LYNG. The entitlement character of farm legislation, that is somewhat different than the contract that is made with an individual producer. We had to do something in order to make it possible to write the checks to pay these people what was owed to them.

Senator HARKIN. Thank you, Mr. Secretary.

Secretary LYNG. Thank you.

PREPARED STATEMENTS AND SUBMITTED QUESTIONS

Senator COCHRAN. Mr. Secretary, thank you for being here today. We will ask that you respond promptly to any questions we may submit.

Secretary LYNG. We will be happy to do so.

[The statements of Senators McClure and Bumpers and submitted questions by various Senators follow:]

STATEMENT OF SENATOR MCCLURE

Mr. Chairman, I thank you for allowing me a few minutes of the Committee's time to welcome Secretary Lyng and thank him for his comments on the current and future funding requests for the Department of Agriculture. I'm not sure that his is a job anyone would envy with the current plight of agriculture. There will be many pressures placed upon the Department in the year ahead, many requests for funding, many requests for fast action by the USDA on a variety of problems and programs affecting agriculture.

I am concerned about several areas within USDA. Of particular concern is the implementation of the export enhancement programs of the USDA under the new Farm Bill and the recent changes to the Farm Bill. The USDA forecasts that in FY86 further declines in agricultural exports, down to $29 billion, are expected. A number of factors contribute to the decline in agricultural exports. For the most part these revolve around increased competition in the international market. The export title of the 1985 Farm Bill provides a wide range of tools designed to promote agricultural exports, thus bolstering the American farm economy. Commercial export credit, general export promotion programs, and foreign food assistance are the main tools backed by Congressional intent that these programs be run to maximize export assistance and market promotion.

During the recent debate on the changes to the 1985 Farm Bill which both the House and the Senate passed, an agreement was reached to cut $1 billion from the Export Enhancement Program to pay for the increase in costs under the changes. You stated in an article in the Chicago Tribune that the Department would be "more aggressive" in administering the programs to make up for the funding cuts. What specifically do you mean by that and when can we expect action on this? You went on to state that "it may take two years before we really get turned around" on overall farm exports, what leads you to believe that it can be turned around in two years? Is there anything further Congress can do to speed this process up? How much will a new, tougher round of GATT negotiations be to turning this unfavorable trade situation around?

The Wheat Growers in Idaho have stated that the Export Enhancement Program has hurt their markets in Korea and Tiawan through its implementation. They claim that the program needs to be expanded. How will you address the problem of increasing exports on the Pacific Rim using the authorities available to you?

A revolving agricultural export credit fund was authorized in both the 1981 and the 1985 Farm Bills. It has not received funding under either bill. If funding was available for this would you make use of it? What countries would be able to best make use of this fund, for both credit sales of commodities and breeding animals as well as to finance import and handling facilities in developing countries?

Congress also supplemented the existing foreign food assistance programs with a provision untitled "Food for Progress". What steps has the Department taken to implement this program, and where do you expect it will work best?

Cargo preference as applied to agricultural export programs was addressed by Congress in debate on the 1985 Farm Bill. Under the Compromise the percentage required to be shipped on US flag vessels is to rise each year for three years until it reached 75%

in 1988. The cost increase is to be paid from the Department of Transportation rather than the USDA's budget. The enactment of the Gramm-Rudman-Hollings may preclude necessary Department of Transportation appropriations to fund the increased cargo preference. If this occurs application of cargo preference will revert to interpretation of the law prior to the 1985 Farm Bill provision; i.e., cargo preference would apply to the blended credit exports. What would the Department do if this scenario were to come about?

I am greatly concerned about several other items which I will only mention briefly but wish to bring to your attention. I am very concerned about the cuts in the Foreign Agriculture Service Cooperator Program. The use of these programs has helped establish and maintain markets in many foreign countries for both large and small commodity groups in Idaho. For instance the Pear and Lentil Commission makes great use of the Cooperator Programs in Asian countries as well as the barley and wheat industry. I am not in favor of cutting these programs while expanding other programs, such as the International Agricultural Research Centers, which tend to fund research on crops which other countries use to compete against US producers. Please provide the justification for the large decrease in funding for the Cooperator Programs and review the decision to implement these cuts. I would appreciate a report to me on this issue.

In addition, I want to mention the continued need to maintain adequate field personnel to run the programs under the Animal Plant Health Inspection Service Grasshopper Control Program. Idaho has, for the past two years, had serious problems with maintence of funding and program operation of this program. I appreciate the efforts of many within APHIS which in the past have helped run the program and make it work on the ground. I feel that the funding for this year's expected program is adequate to start but if the infestation is a large as last year, there may not be adequate funding. As new legislation was passed on the 1985 Farm Bill which states that APHIS will expend all funds available under the Contingency Fund before the Department of Interior pays for spraying, I fully expect APHIS to have their planning done, well in advance of any actual use of the program. Maintence contracts with spray plane operators, adequate storage for chemicals, and proper coordination of field personnel are essential. The spring adult grasshopper should be as through as possible.

APHIS must have in place memorandums of understanding with the Department of the Interior which will allow smooth transfer of funds from one Department to another with no lapse in program implementation or shut down of on the ground spraying. I hope that you will continue to monitor this program and assist my office in maintaining a smooth running program.

I thank the Chairman for allowing me this time to address a few of the problems which face agriculture in Idaho and throughout the United States. I look forward to working with you, Secretary Lyng, to find new and innovative ways to help our farmers. This will be especially difficult given the current budget restraints but I have every faith that it can be done.

STATEMENT OF SENATOR BUMPERS

Among the most draconian cuts proposed in the FY87 budget are those to one of the most successful models of cooperation between the federal and local governments, the Cooperative Extension Service. Although we do not hear much about "New Federalism" these days, the partnership among the Department of Agriculture, the Land Grant colleges and thousands of counties across this nation is a prime example of the effectiveness of this idea.

I intend to vigorously oppose these cuts, for I firmly believe that the symbiotic relationship among agricultural science, agricultural extension, and agricultural industry has made the United states the greatest food-producing country in the world. It is a priceless link between the scientist and the farm family. The Land Grant system provides for a efficient means of interpreting, demonstrating, and implementing agricultural knowledge through extension. What other program brings such vital and timely information on the latest technology to our farmers?

The Soviet Union has a sophisticated and outstanding collection of scientists researching agriculturally related subjects. But even considering the variable climatic conditions in that country, their agricultural productivity seems unusually poor. Among other reasons, the Soviet Union has no sophisticated means of linking agricultural research to agricultural production. If American farmers had to research the latest proven methods of enhancing their productivity, we might find ourselves looking for places to buy food rather than looking for new markets for it.

The family farm continues to be the backbone of our agricultural system, and in these times of rapid change the Extension Service programs continue to change to meet the needs of those it serves. In Arkansas alone, a state whose population is only 2.3 million, the programs of the Extension Service have reached 1.4 million, or 64% of its people in some way. The benefits provided cannot be fully measured in dollars and cents, but the dollars and cents benefits are real.

Among the needs to which the Extension Service responds are farm profitability, water quality and management, nutrition/wellness concerns, and the revitalization of rural America. The educational arm of the Department of Agriculture makes possible improved nutrition through its educational programs, and in doing so provides expanded markets for farm products. Its agents provide advice on pesticides, herbicides, or veterinary practices that increase farmers' productivity and therefore their income. Its programs provide advice on financial management that can make the difference between success and failure in farming and in agribusiness.

The decisions as to program needs are made at the local level and implementation is most often by volunteer Americans. These volunteers meet the needs of individuals and families across the nation. For example, during my term as Governor of Arkansas, Extension volunteers played a vital role in a successful immunization program that became a model for this nation. Members of Home Extension organizations turned out in force to see that Arkansas children were protected from childhood diseases. I need not belabor the cost-effectiveness of preventive health programs, but I do point to the fact that no other organization in my state can boast of 17,000 members, the vast majority of whom stand ready to offer their time and efforts to causes that improve the health and the quality of life of their neighbors. And I do not see Arkansas as unique in this commitment to voluntarism.

The interdependence of farmers, their families, their communities and agribusiness casts serious doubt upon the wisdom of the proposed changes to the Smith-Lever Act. American farmers must continue to enjoy the services of the Extension Service if American agriculture is to continue to set an example to the world, much of which is hungry. But to prohibit its providing any other services until the needs of farmers have been met will dilute the effectiveness of the program and have serious effects on the ability of American agriculture to prosper. A vital part of our nation's ability to defend itself lies both with its ability to produce food and fiber and in the strength of its families.

To a great extent, the future of American farming lies with the sons and daughters of farm families. The Extension Service provides invaluable educational opportunities for these future farmers. Volunteers, through 4-H clubs, prepare young people to carry on America's leadership in agriculture. Members' leadership skills, agricultural production skills, and moral values are enhanced through 4-H activities.

No price tag can be placed on strong families, improved nutrition and health, new and often profitable skills, or volunteer development. For 70 years the Extension Service has served the needs of Americans from New York City to Charleston, Arkansas.

I believe that the activities of the Cooperative Extension service play a vital role in assuring that we continue to meet the goals set by Congress with increasing efficiency. The Bankhead-Jones Act of 1935 specified "...the establishment and maintenance of a permanent and effective agricultural industry including...the development and improvement of the rural home and rural life, and the maximum contribution of agriculture to the welfare of the consumer and the maintenance of maximum employment and national prosperity..." We must balance the budget, but we must not be so short-sighted that we destroy programs that have stood the test of time in their value and effectiveness.

QUESTIONS SUBMITTED BY SENATOR MCCLURE

AGRICULTURAL EXPORTS

I thank you for allowing me a few minutes of the Committee's time to welcome Secretary Lyng and thank him for his comments on the current and future funding requests for the Department of Agriculture. I'm not sure that his is a job anyone would envy with the current plight of agriculture. There will be many pressures placed upon the Department in the year ahead, many requests for funding, many requests for fast action by the USDA on a variety of problems and programs affecting agriculture.

I am concerned about several areas within USDA. Of particular concern is the implementation of the export enhancement programs of the USDA under the new Farm Bill and the recent changes to the Farm Bill. The USDA forecasts that in FY 86 further declines in agricultural exports, down to $29 billion, are expected. A number of factors contribute to the decline in agricultural exports. For the most part these revolve around increased competition in the international market. The export title of the 1985 Farm Bill provides a wide range of tools designed to promote agricultural exports, thus bolstering the American farm economy. Commercial export credit, general export promotion programs, and Congressional intent that these program be run to maximize export assistance and market promotion.

Question: During the recent debate on the changes to the 1985 Farm Bill which both the House and the Senate passed, an agreement was reached to cut $1 billion from the Export Enhancement Program to pay for the increase in costs under the changes. You stated in an article in the Chicago Tribune that the Department would be "more agressive" in administering the programs to make up for the funding cuts. What specifically do you mean by that and when can we expect action on this?

Answer: Our goal is to maximize the use of available resources by announcing as many "solid" export enhancement programs as possible as quickly as we can. Thus far under the Export Enhancement Program, we have announced 16 initiatives. Several more announcements are imminent, and we are continuously reviewing additional candidates.

Question: You went on to state that "it may take two years before we really get "turned around" on overall farm exports, what leads you to believe that it can be turned around in two years? Is there anything further Congress can do to speed this process up?

Answer: The main positive results of changes in our farm programs will be seen in the medium and longer term. There is some lag time--a year or two and perhaps longer in some instances--before lower U.S. prices can have the full effect of slowing down the expansion of competitor production/exports or of increasing consumption in importing countries. We believe that there will be some increase in U.S. exports immediately, but most of the improvement will take longer.

Question: How much will a new, tougher round of GATT negotiations be to turning this unfavorable trade situation around?

Answer: We hope the trade situation will turn around long before we see any results from the new round of GATT negotiations. The dollar has continued to drop in value, and the full effect of lower U.S. farm support prices should be evident later this year. The new round of negotiations is not scheduled to begin until September. In fact, we anticipate our improved competitive position will strengthen our hand for the negotiations.

Question: The Wheat Growers in Idaho have stated that the Export Enhancement Program has hurt their markets in Korea and Taiwan through its implementation. They claim that the program needs to be expanded. How will you address the problem of increasing exports on the Pacific Rim using the authorities available to you?

Answer: Currently, we have the authority under several programs to increase exports to the Pacific Rim countries. Under the Targeted Export Assistance Program (TEA) we have $110 million to use to combat unfair trade practices worldwide. Export Enhancement Programs are available for both wheat and flour to the Philippines. We will continue to implement EEP programs aggressively where we find evidence of subsidized competition and can avoid major disruption of trade with non-subsidizing suppliers. In addition, we are close to agreement on substantial PL-480 concessional sales programs for wheat to both Indonesia and the Philippines. South Korea continues to be the recipient of one of the largest allocations of GSM-102 credit guarantees, a program that could be available to a number of other Pacific Rim countries if they wished. Furthermore, under the recently passed farm bill, authority now exists to provide intermediate credit guarantees of 3 to 10 years. We are exploring a number of possibilities including some in the Pacific. Finally, our market development programs have been well established in the Pacific and we continue to emphasize areas of high growth.

Question: A revolving agricultural export credit fund was authorized in both the 1981 and the 1985 Farm Bills. It has not received funding under either bill. If funding was available for this would you make use of it? What countries would be able to best make use of this fund, for both credit sales of commodities and breeding animals as well as to finance import and handling facilities in developing countries?

Answer: To speculate on whether or not this program would be used if funds were made available for it is difficult to do at this time. We believe that the proposals contained in the President's Budget represents the best utilization of funds to improve.

It is always difficult to specify country credit allocations for a program not currently operating. The Export Credit Guarantee Program (GSM-102) is however somewhat comparable to the short-term provisions of the revolving fund, and it targets developing countries where credit availability expands export marketing opportunities. Major GSM-102 recipient countries are Mexico, Brazil, Korea, Pakistan, and Portugal.

Question: Congress also supplemented the existing foreign food assistance programs with a provision entitled "Food for Progress". What steps has the Department taken to implement this program, and where do you expect it will work best?

Answer: The criteria for participation in the "Food for Progress" program was submitted to selected countries in March through interagency channels. The selected countries are in Africa, since the initial focus of the program was and remains the famine affected regions of that area. We have already received some preliminary proposals which are currently under review. We anticipate action on them in the near future.

Question: Cargo preference as applied to agricultural export programs was addressed by Congress in debate on the 1985 Farm Bill. Under the Compromise the percentage required to be shipped on U.S. flag vessels is to rise each year for three years until it reached 75% in 1988. The cost increase is to be paid from the Department of Transportation rather than the USDA's budget. The enactment of the Gramm-Rudman-Hollings may preclude necessary Department of Transportation appropriations to fund the increased cargo preference. If this occurs application of cargo preference will revert to interpretation of the law prior to the 1985 Farm Bill provision; i.e., cargo preference would apply to the blended credit exports. What would the Department do if this scenario were to come about?

Answer: The impact of Gramm-Rudman-Hollings on P.L. 480 during fiscal year 1986 is a reduction in the overall P.L. 480 budget which would in turn result in a lower, shipped tonnage. The Department of Transportation's ability to finance the required costs of U.S. flag carrier-shipped quantities for the tonnages associated with the reduced P.L. 480 budget is expected to remain unchanged.

Question: I am greatly concerned about several other items which I will only mention briefly but wish to bring to your attention. I am very concerned about the cuts in the Foreign Agriculture Service Cooperator Program. The use of these programs has helped establish and maintain markets in many foreign countries for both large and small commodity groups in Idaho. For instance the Pear and Lentil Commission makes great use of the Cooperator Programs in Asian countries as well as the barley and wheat industry. I am not in favor of cutting these programs while expanding other programs, such as the International Agricultural Research Centers, which tend to fund resarch on crops which other countries use to compete against U.S. producers. Please provide the justification for the large decrease in funding for the Cooperator Programs and review the decision to implement these cuts. I would appreciate a report to me on this issue.

Answer: This proposed budget reduction is in accordance with the Administration's government-wide policy of transferring a larger portion of the cost of certain Government programs to the private sector, which receives the benefits. Moreover, it has been proposed to help ensure that the President's Budget request meets the Federal deficit target for fiscal year 1987 established in the Balanced Budget and Deficit Reduction Act of 1985.

FAS has advised cooperators to submit Fiscal Year 1987 marketing plans at budget levels which reflect the proposed reduction. The implementation of reduced FY 1987 marketing plan budgets is contingent on congressional action.

GRASSHOPPER

Question: In addition, I want to mention the continued need to maintain adequate field personnel to run the programs under the Animal Plant Health Inspection Service Grasshopper Control Program. Idaho has, for the past two years, had serious problems with maintenance of funding and program operation of this program. I appreciate the efforts of many within APHIS which in the past have helped run the program and make it work on the ground. I feel that the funding for this year's expected program is adequate to start but if the infestation is as large as last year, there may not be adequate funding. As new legislation was passed on the 1985 Farm Bill which states that APHIS will expand all funds available under the Contingency Fund before the Department of Interior pays for spraying, I fully expect APHIS to have their planning done, well in advance of any actual use of the program.

Maintenance contracts with spray plane operators, adequate storage for chemicals, and proper coordination of field personnel are essential. The spring adult grasshopper control program should be as thorough as possible.

APHIS must have in place memorandums of understanding with the Department of the Interior which will allow smooth transfer of funds, implementation or shut down of on the ground spraying. I hope that you will continue to monitor this program and assist my office in maintaining a smooth running program.

Answer: For the FY 1986 program, we feel that adequate funds are available to carry out our responsibilities. We will fully obligate the APHIS no-year Contingency Fund before seeking reimbursement, if necessary, from the Department of the Interior (DOI). DOI lands constitute a sizable portion of the total Federal lands potentially requiring treatment based on the fall 1985 adult survey results. Thus, a substantial portion of program costs could be borne by DOI should funding requirements significantly exceed the APHIS no-year fund availability. (By way of clarification, we assume that the term "Contingency Fund" in this context refers to the no-year account mentioned in the 1985 Farm Bill, not the one-year contingency fund line item traditionally available for APHIS' discretionary use in responding to small-scale emergency needs.)

In our planning, we are making every effort to ensure that APHIS responds in a timely manner to the grasshopper control needs of the Nation. As required by the National Environmental Policy Act, we have developed an Environmental Impact Statement for the 1986 program. No formal commitment of resources can take place prior to publication of a Record of Decision on this document in the Federal Register, scheduled to take place on May 12, 1986. We are making efforts to alleviate or minimize any problems with respect to procurement of spraying contractors within the constraints of Federal competitive bidding procedures, and do not foresee a problem with adequate storage of chemicals. Meetings are being held between Federal, State, and community organizations to ensure appropriate coordination of field personnel. Also, we are placing a high priority on the spring grasshopper survey and are working to complete the necessary Interagency Agreement with DOI to allow a smooth transfer of funds from DOI to USDA in the event the no-year contingency fund is fully obligated.

The necessary Interagency Agreement between APHIS and the Department of the Interior is currently at Interior pending resolution of an internal controversy concerning the classification of Bureau of Indian Affairs' lands as either privately or Federally owned. Once that issue is resolved within DOI, the agreement should be ready for implementation. As soon as the Interagency Agreement between APHIS and DOI is finalized, we will proceed to implement a revised Memorandum of Understanding with the Forest Service. Regardless of their status, we anticipate no lapse in program operations once spraying is begun.

I thank the Chairman for allowing me this time to address a few of the problems which face agriculture in Idaho and throughout the United States. I look forward to working with you, Secretary Lyng, to find new and innovative ways to help our farmers. This will be especially difficult given the current budget restraints but I have every faith that it can be done.

Questions Submitted by Senator Kasten

H.R. 4380

Question: Mr. Secretary, it has come to my attention that H.R. 4380, the urgent supplemental appropriations bill for the Department of Education, the Small Business Administration, and other departments and agencies, includes a number of legislative provisions.

Several of these would substantially alter the way the Soil Conservation Reserve Program is implemented, and, I believe, would weaken this important program. Speaking for myself, I will feel compelled to object strongly to these changes if they are included in the bill that is passed by the House. Are you familiar with the changes proposed in H.R. 4380?

Answer: Yes Senator, I am familiar with the changes.

Question: Are you willing to state a position on these proposals?

Answer: Senator, we are very much opposed to the changes included in H.R. 4380 for the Conservation Reserve Program. We agree that these provisions would have a significant adverse impact on the implementation of the Reserve. Our recently completed sign up and bids received for 1986 are based on the provisions of the original authorizing legislation, which was enacted on December 23, 1985. To change the ground rules at this juncture would seriously disrupt the implementation of the program in 1986 and could adversely affect the willingness of farmers to participate in future years as well. Beyond the timing related problems, the provisions would further restrict the land that could be brought into the Reserve and would reduce the economic incentives necessary for farmers to participate. In summary, we believe that if these changes are enacted, the resulting Conservation Reserve Program would be much less effective in achieving our conservation objectives and would also be more costly to operate.

MILK MARKETING

Question: As you know, Mr. Secretary, Wisconsin is more dependent on the dairy industry, by far, than any other state. We have more dairy farms, many more processing plants than any other state. We have more and more jobs riding on the dairy industry than any other state.

It is crucial that we develop markets for Wisconsin milk. I believe that one way to do this would be to reform federal milk marketing orders to encourage the flow of low-cost milk from the upper midwest to consumers in other parts of the country.

Milk marketing order reform is in the interest of the nation's largest dairying region. I believe it is also in the interest of millions of consumers, especially low-income consumers.

I would like to work with you to begin the process of deregulating the marketing of fluid milk in this country. Many people believe a good place to start would be by removing the restrictions on pricing powder for reconstitution.

What is your position on this idea?

Answer: Complete elimination of the regulation of reconstituted milk under Federal orders would be opposed by most producer groups and fluid milk processors in the industry. In 1981, the Department conducted an extensive investigation and thorough analysis of the impacts of such a proposal. It was concluded that some amount of regulation of reconstituted milk is needed in order to carry out classified pricing as a means to maintain orderly marketing.

The present regulatory treatment of reconstituted milk could be modified to enable a potentially greater outlet for milk products produced in the lower-cost-of-production areas of the country. For example, it might be well to consider the possibilities of reducing the compensatory payment rate on reconstituted milk. Another alternative would be to enable producers whose milk was used for reconstitution to receive the payment. Currently under orders, the compensatory payment accrues to producers in the market where the reconstitution takes place.

Any action to amend orders and change the regulatory treatment of reconstituted milk would have to be considered through the hearing process. A well-prepared proponent able to present convincing testimony and economic justification capable of withstanding a legal challenge would be essential.

The Department would consider a proposal to modify the current treatment of reconstituted milk as long as it is one that would be consistent with the Act authorizing milk orders. Preferably, the proposal should come from an industry source subject to the Federal order program.

QUESTIONS SUBMITTED BY SENATOR SPECTER

FARMERS HOME ADMINISTRATION

Question: Pennsylvanina has one of the most rural populations in the nation. In FY 1986 rural housing programs were reduced by nearly 40 percent. The FY 1987 budget proposes program eliminations for rural housing. What is the justification for these proposed reductions?

Answer: In January, 1986, Congress passed a continuing resolution which reduced this Agency's Section 502 Single Family Housing funds to $1.4 billion and Section 515 Multi-Family Housing funds to $700 million. A further reduction of 4.3 percent by the Gramm-Rudman-Hollings Bill has been made. In addition, a deferral of $700 million in FY 1986 has been proposed in the President's Budget.

The proposed reductions for 1986 and 1987 are consistent with the President's initiatives to help reduce the Federal deficit and bring about a balanced budget and to lessen dependency upon Federal credit programs.

In 1987, HUD would expand its role in rural areas and assume full responsibility for these housing needs by allocating approximately 50 percent of all new federally assisted housing units to rural communities.

WATERSHED AND FLOOD PREVENTION OPERATIONS REDUCTIONS

Question: Watershed and Flood prevention programs are extremely important to Pennsylvania. However, Soil Conservation activities in Pennsylvania are being reduced from $5.6 million in FY 1986 to $1.4 million in FY 1987. The justification for this decrease is that "project benefits are local in nature...and should be within the capability of state project sponsors to fully fund." What studies have you done to show that program benefits are only local benefits and to evaluate the ability of state and local project sponsors to fully fund this program?

Answer: We have not conducted any comprehensive empirical studies on a national basis to determine if program benefits are only local nor have be evaluated the ability of state and local project sponsors to fully fund this program. However, during planning we do conduct indepth evaluations of the economic feasibility of constructing alternative plans for each project. These benefit cost studies do indicate that most of the benefits derived from reducing flood damages to cropland, buildings, roads and bridges and other structures in the flood plain do occur in the immediate project area or in close proximity to the project area. It, therefore, follows that local beneficiaries should pay for this work, even though some secondary benefits of a national scope are generated by these projects.

We feel that local project sponsors are better able to fully fund this program than in the past. They have shown some ability to fund these programs as is indicated by their increasing contributions of funds and services in support of state and local soil conservation activities. We feel that this trend will continue.

CHESAPEAKE BAY

Question: What effort is the Department of Agriculture (USDA) making to reduce pollution in the Chesapeake Bay?

Answer: In addition to the normal educational, technical and financial assistance provided to the agricultural producers within the Chesapeake Bay drainage area, the Soil Conservation Service (SCS) has developed and signed an interagency agreement with the Chesapeake Bay Program to provide an additional level of assistance to the states party to the 1983 Chesapeake Bay Agreement.

SCS has increased it's field staff by 31 people over the last two fiscal years. The assistance provided by these people has varied, but is restricted to activities directly impacting the pollution of the Bay. Staff have been detailed or assigned to assist State Departments of Agriculture and Soil and Water Conservation Agencies. Currently, two SCS people are stationed at the Bay Program office in Annapolis to coordinate agency activities with those of EPA and the Bay states.

SCS is providing, without reimbursement, the needed technical assistance to the States of Maryland, Virginia, and Pennsylvania for the delivery of their agricultural nonpoint source program. In Maryland, new state employees are being trained and supervised by SCS personnel.

SCS has recently initiated a pilot program with the U.S. Geological Survey to test the feasibility of a Geographic Information System for the entire Bay drainage area that contains digitized soils, topography and land use information. If successful this will provide EPA a long-range management system to guide future remedial pollution control programs. We are also cooperating with EPA in its water quality modeling efforts to ensure that the land based information is updated and reflective of current agricultural use.

USDA and EPA working through the Rural Clean Water Program (RCWP) have taken definitive steps to ensure that the three approved projects within the Bay drainage area are responsive to the goals of the Bay Program. The RCWP objectives have been altered to include both nutrient and pesticide management. We have also undertaken the development of a total nutrient balance program to address the problems of Lancaster County, Pennsylvania, where the number of animals outstrips the land available for effective nutrient management. This work is being done by Pennsylvania State University in cooperation with the Extension Service and will have nationwide applicability when completed and incorporated into our normal delivery systems. Additional funds have also been provided to these projects to accomplish these new tasks. It is anticipated that in fiscal year 1987, EPA will seek to develop additional agreements with other USDA agencies to foster closer coordination for specific programs.

To bring the pollution problems of the Bay to the attention of the farmers, we have undertaken several efforts this year. In cooperation with the Soil Conservation Society of America and Nebraska Public Television we have funded a one hour documentary on nonpoint source pollution which describes the Bay problem and shows the relationship between the pollution and agricultural land management. Three separate displays have been developed that further explain the relationship between agriculture and the Bay. We have cooperated with the Citizens Program for Chesapeake Bay and have provided funds for the development of a Chesapeake Bay information center. Funds have also been provided to help purchase copies of the BAY BOOK which documents what citizens can do to address the Bay pollution. While many of these efforts were initiated to respond to the needs of the Chesapeake Bay Program they have national significance and will receive national use.

FEDERAL FUNDING

Question: Your budget proposal will reduce Federal funding of cooperative extension programs by 47 percent. Have the States and local cooperators indicated that they will fund this additional amount, or will these vital programs just be discontinued?

Answer: We do not anticipate that the States will be able to completely compensate for the proposed reduction in Federal funds. However, we firmly believe that our cooperators will continue the high priority extension programs that best serve their clientele.

EMERGENCIES

Question: In the past, funding to deal with plant and animal disease emergencies have been funded from the Commodity Credit Corporation. With outbreaks of avian influenza, citrus canker, and gypsy moths already occurring, what is the USDA's plan to obtain funding for such disease emergencies?

Answer: If emergencies arise during the course of the year, USDA will try and reprogram from low priority items within the USDA budget.

USER FEES

Question: In the USDA marketing programs, this budget proposes user fees for programs such as meat, poultry and egg products inspection, packers and stockyards programs and agricultural cooperative efforts. With the farm economy already under severe economic stress, what is the justification for converting these programs to a user fee basis?

Answer: The 1987 budget proposals for these programs reflect the implementation of the President's goal to work toward a balanced budget through less public reliance on the Federal sector. The budget expands the use of user fees wherever possible. Legislation is being proposed which will allow user fees to be charged to recover the costs from users of the programs wherever the group that directly benefits from this Government service can be identified.

CHILD NUTRITION PROGRAMS

Question: Your 1987 budget proposes a reduction of $775 million in child nutrition programs, from $4.2 billion in 1986 to $3.4 billion in 1987. Have the nutrition levels of children improved to levels where these reductions will have no impact on the health of our children?

Answer: Nutritious meals will still be available to all children. Most of the reductions result from the elimination of Federal subsidies to children from upper income families. Considering that the median average income of affected families is over $37,000 per year, the slightly higher prices which they may have to pay should not be an impediment to their children's ability to continue to receive nutritious meals.

QUESTIONS SUBMITTED BY SENATOR BURDICK

FEDERAL FUNDS - EXTENSION SERVICE

Question: The 60 percent cut in Extension gives me great concern, Mr. Secretary. You know about the effects of the terrible farm economy on farmers, their families, and their friends. You have heard about the depression, the loss of hope, the suicide, and even the murder. The Extension Service has become instrumental in attempting to deal with this stress by putting on stress workshops, helping farmers adjust to a non-farming life, and working with members of the farm family to cope with the unique burdens placed on them. How can you justify a 60 percent cut in such a crucial program at this time?

Answer: We in the Department are well aware of the strife that has engulfed the American agricultural community in the past few years, and we believe that it is beginning to bottom out. It must be realized that this proposed budget would only reduce the Federal portion of funding to extension programs. Our State cooperators will still be providing much needed educational assistance to the farmers using the remaining general formula funds from the Federal partner and their own resources.

Question: The budget proposal indicates that the reduced Federal funds for the Extension Service would be limited to enhancement of farm profitability. In my State of North Dakota, the home economics component of the Extension Service includes programs in wellness and nutrition that are very valuable. Would Federal funds be available for these programs to continue?

Answer: The budget proposal emphasizes the use of the Federal portion of extension funding to first address the needs of farm operators in order to improve their profitability. Other activities could be supported with Federal funds after the needs of farm operators have been met.

Question: Would you cut out funding for the 4-H, Nutrition, and Home Economics programs?

Answer: Federal funds would first be available to provide assistance to farm operators. After those services have been met, the funds would be available for other programs. State and local funds could also be directed to 4-H, nutrition and home economics activities.

Question: The Federal government provides about 1/3 of the Extension programs. The rest is provided by State, local, and private money. Have you considered the effect that reduced Federal involvement will have on these programs?

Answer: Although we are proposing a reduction in Federal extension funding, the Federal Extension Service would continue to provide leadership and assistance to States in developing and coordinating programs to use new technology and assist with the implementation of farm programs. The proposal will certainly require States to make some difficult choices regarding priorities but we believe that the system will survive. States and localities may increase their funding to support programs which they consider of a high priority to their clientele. Indeed, many States already match the Federal contribution by much more than one to one.

EXPORTS

Question: The budget proposal contains a 50 percent cut--$13 million--for the Foreign Agricultural Service Cooperator Program. This program has been the key to developing foreign markets in cooperation with private agricultural organizations. A 1983 Chase Econometrics study showed that Soybean Foreign Market Development Programs returned over $66 in exports for each $1 spent. Do you plan to replace this program with something else?

Answer: Foreign Agricultural Service is not considering an alternative to the foreign market development program at this time. Even with the proposed budget reduction, the government's contribution to the program's expenditures will still be sufficient to maintain an effective presence in the world marketplace.

Question: Has the program been successful in its efforts?

Answer: The program has been very successful. The Administration frequently refers to the effectiveness of the foreign market development program in developing, expanding and maintaining export markets for U.S. agricultural commodities. Although the tangible benefits of long-term generic promotion are often difficult to quantify, the Chase Econometric Study to which you refer was one professionally objective attempt which clearly demonstrated the success of this particular program. We believe the program contributes significantly to the positive trade balance in the agricultural sector. It is our hope that the agricultural sector's confidence in the foreign market development program's proven track record will encourage an increased commitment of private industry resources sufficient to diffuse the impact of the proposed reduction.

GRAIN RESERVE ROLL-OVER PROVISION

Question: Mr. Secretary, as you know the farm credit situation is not good. One of the ideas that has been attempted and that I have supported is to provide advance CCC loans. I understand that you are quite opposed to that proposal. Let me try another one on you. Currently, there is a 30 day roll-over provision where a farmer can take his grain out of reserve and market it as long as he replaces it within 30 days. What would you say to a change in the law that would make that a 120 day provision? Farmers could market some grain now, get the money to use for spring planting, and replace the grain in the reserve at harvest time.

Answer: The statutes authorizing the Grain Reserve Program provide that producers may rotate reserve stocks for the purpose of maintaining quality. Thirty days in most cases has proven to be sufficient time for a producer to replace reserve stocks with more recently harvested grain. However, in July of 1982, the Department saw the need to extend the rotation period to 60 days for corn and sorghum. It soon became apparent that the provision was being abused as producers were rotating stocks strictly for marketing purposes. Rotation for marketing purposes is not in keeping with program statutes.

Question: Would you support that change?

Answer: The Department could not support a change in the program statutes as suggested. Reserve grain is loan collateral. For the period of time that grain is not "in place" there is no collateral to satisfy a loan.

GRAMM-RUDMAN

Question: Mr. Secretary, you mentioned in your testimony that agriculture takes the biggest cut in a non-defense sequester under Gramm-Rudman--almost 30 percent. I think I am agreeing with you when I say that Gramm-Rudman is hurting the farmers most. Worse still, these farmers are getting hit right in the pocketbook because the cuts are coming directly out of their checks for loans, deficiency payments, storage payments, and the like.

Therefore, you argue that the President's budget is good for agriculture to the extent that it would avoid another sequester.

My question to you is: That to the extent that there is another sequester, wouldn't it be best to have a large agriculture budget in order to have some cushion? In other words, the extent to which an agriculture budget over the President's causes a sequester is not as great as the extent that agriculture would be cut by a sequester?

Answer: The budget as requested for fiscal year 1987 as submitted by the President will be within the Deficit Reduction guidelines and a sequestration for fiscal year 1987 will not be necessary.

We believe adoption of the President's budget is the best way to achieve the savings necessary to reach the FY 1987 budget deficit target required by the Gramm-Rudman legislation. Clearly, the high priority programs of the Department will fare much better under the President's budget than they would if another sequester order is issued for fiscal year 1987. USDA spending represents about 5 percent of total Federal spending but accounts for almost 30 percent of Federal non-defense outlays which are subject to the sequester process. Thus, those who support USDA programs have a particular interest in avoiding another sequester. From this standpoint the President's budget is good for agriculture.

Also, agriculture stands to benefit greatly if the budget deficit is reduced. Lower interest rates for farmers could result because of a lower deficit and U.S. exports could become more competitive if the value of the dollar continues to drop.

QUESTIONS SUBMITTED BY SENATOR HARKIN

FARMERS HOME ADMINISTRATION

Question: I understand that the $750 million which was transferred by the White House for direct operating loans has not as yet been allocated to the States but is being held in a "national pool". Why has this money not been allocated to the States, and what is the purpose of this national pool? What standards will be used for determining how the funds in this pool will be used?

Answer: Under the Secretary's transfer authority, $700 million has been transferred from the emergency loan allocation to the direct operating loan program. Fifty million dollars has been transferred from the Business and Industry allocation to the guaranteed operating loan program using the same authority.

The additional funds have been placed into the FmHA National Office reserve to allow for daily management of these funds by the Administrator. Due to limited funding, a nationwide distribution of the funds was not made. Our current procedure can take into consideration the specific and unique needs of the States related to guaranteed loan obligations and the application activity for direct funds of each State.

WIC PROBLEM

Question: There is now a major problem in the WIC program. OMB has unilaterally ordered USDA to drop the formula for allocating "equity funds" to states that USDA developed, after consultation with states, in 1983. Instead, OMB has come up with its own approach and instructed USDA to start using this approach now--in the middle of the fiscal year and without any prior consultation or advance warning to states. In states in which the state WIC agency has planned for receipt of equity funds under the existing USDA formula, the WIC program could be disrupted. In some cases, participants would have to be removed from the program.

States that would receive funds under the formula have planned for their receipt. To pull the rug out from these states by altering the formula now--in the middle of the year--could cause disruptions and caseload cutbacks. It would violate basic principles of federal-state relations in this area.

Can you assure the Committee that you will use the existing USDA formula for the allocation of WIC equity funds?

Answer: We are considering how to allocate these funds and they will be released soon.

Question: When will the equity funds be allocated to states?

Answer: The growth (equity) funds will be allocated to eligible State agencies shortly.

QUESTION SUBMITTED BY SENATOR LAUTENBERG

MILK STUDY

Question: The conference report on the FY 85 agriculture appropriations bill included an amendment, which I sponsored in the Senate, calling for a study of state milk licensing regulations governing market entry by milk dealers and processors. The study was to have been completed by the end of FY 85.

The study has yet to be completed. Results have been promised by mid-November, mid-January, and most recently, the end of February by the staff of the Economic Research Service. However, no report has materialized. What explains the delay in carrying out the directive of the Congress? When can we expect to receive the study?

Answer: We regret the delay in getting this report to Congress. Preparation of the report by the contractor took longer than planned. Following your inquiry we delved into the cause for delay and expedited completion of the report. It has now been delivered. I hope that the report will be useful to the Committee.

SUBCOMMITTEE RECESS

Senator **COCHRAN**. Let me announce that the next hearing of the subcommittee will be at 10 a.m., Tuesday, March 25 in this hearing room, SD-138. At that time we will hear from representatives of the Agricultural Research Service, the Cooperative State Research Service, and the Extension Service.

We do appreciate your attendance at this hearing. This hearing is now adjourned.

[Whereupon, at 11:15 a.m., Tuesday, March 18, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, March 25.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

TUESDAY, MARCH 25, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:04 a.m. in room SD–138, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, Abdnor, Kasten, Specter, Stennis, Chiles, Sasser, and Bumpers.

DEPARTMENT OF AGRICULTURE

SCIENCE AND EDUCATION

STATEMENTS OF:

ORVILLE BENTLEY, ASSISTANT SECRETARY FOR SCIENCE AND EDUCATION

TERRY KINNEY, ADMINISTRATOR, AGRICULTURAL RESEARCH SERVICE

JOHN PATRICK JORDAN, ADMINISTRATOR, COOPERATIVE STATE RESEARCH SERVICE

MARY NELL GREENWOOD, ADMINISTRATOR, EXTENSION SERVICE

OPENING REMARKS

Senator COCHRAN. The committee will please come to order.

This morning our hearing deals with the budget request as it affects the activities of the research and extension work done by the Department of Agriculture. Agricultural research that is done by the Department of Agriculture is actually performed by the Agricultural Research Service with work conducted at 135 locations in the States and overseas. In the President's request this year, ARS funding would be increased from $478.5 million, which was the figure in 1986, to $513.1 million for this next fiscal year beginning October 1. About half of this increase is to restore ARS research to the original 1986 levels before sequestration. However, two new initiatives are included: One, a $10 million increase for work focusing on new food and nonfood uses of surplus agricultural commodities; and two, a $3.5 million effort designed to strengthen agency research on plant germplasm.

Other research and extension funding under the President's proposal would be reduced during the next fiscal year. The Cooperative State

Research Service would receive $29.8 million less than the amount they received in fiscal year 1986. Most of this reduction is geared to the fact that the administration is requesting no money for special research grants, which this year will amount to about $29 million.

The Extension Service, which assists in providing the results or benefits of research and other knowledge to farms and rural homes, would be reduced significantly under the proposal before the committee. Funding would decline by 59 percent. This decrease would include a $102.2 million reduction in formula grants, as well as elimination of all earmarked programs including the popular Expanded Food and Nutrition Education Program. That program costs $60.3 million in fiscal year 1986.

We are very happy to have before the committee, this morning, the administration witnesses who can discuss with us the budget request for research, extension, and teaching. All of these activities come under the jurisdiction of Assistant Secretary Orville Bentley.

Dr. Bentley, we welcome you to the hearing and thank you for your cooperation with our subcommittee. We hope you would please introduce your colleagues who are with you, and then proceed with whatever statement or comments you may wish to make. Before you do so, let me recognize my friend and distinguished colleague from Mississippi, Senator Stennis, for any comments or observations he may have at this time.

Senator STENNIS. Thank you very much, Mr. Chairman.

I don't want to take up your time now, but before I leave, I guess I would.

Thank you very much, Mr. Chairman.

Senator COCHRAN. Dr. Bentley, you may proceed.

INTRODUCTION OF WITNESSES

Dr. BENTLEY. Thank you, sir.

We are pleased to be here to have the opportunity to talk about the requests for 1987 for the science and education agencies. Before I proceed to make some comments, I would like to recognize the people who are here with me today. Dr. Terry Kinney of the Agricultural Research Service on my left; on my immediate right is Dr. John Patrick Jordan; next to Dr. Jordan is Dr. Greenwood from the Extension Service. Dr. Jordan is from the Cooperative State Research Service; and Mr. Sherman from the Budget Office of the Department of Agriculture.

PREPARED STATEMENT

I would also ask that my testimony be made a part of the record, and if I may take a few moments to highlight some of the items in the statement that has been submitted.

Senator COCHRAN. We would appreciate that.

Without objection, your entire statement is made a part of the record at this point.

[The statement follows:]

STATEMENT OF DR. ORVILLE G. BENTLEY

Mr. Chairman and members of the Committee, I am pleased to have this opportunity to present to you the 1987 request for our science and education agencies. Given limits on overall funding levels to meet deficit reduction targets, we have made a number of very difficult decisions in compiling our budget plans. Overall, the science and education budget totals $913 million, down from the 1986 estimate of $1.1 billion. Much of this decrease results from elimination of special grants and reductions in extension funding. Many of the reductions are proposed on the same basis as in prior years -- that earmarked programs can be funded from other sources if accorded a high priority by the States. Instead, our request emphasizes support for basic scientific research crucial to future developmental advances and research and extension to bolster farm profitability. I would like to provide a brief overview of our proposals and ask the agency administrators to discuss in detail their particular activities.

As we proceed to formulate the 1987 programs and budgets for our research and education programs, American farmers are in the midst of very difficult economic conditions. World agricultural surpluses continue to depress prices and export levels. It is still too early to determine what effect the declining value of the dollar will have on competitiveness of U.S. farm products in world markets. Farmers and lawmakers alike will be analyzing the implications of the 1985 Farm Bill on our farm economy. Budget reduction actions under Gramm-Rudman pose yet another unknown. Clearly, however, the farm economy will be a major beneficiary of lower Federal budget deficits.

One of the most frustrating aspects facing farmers is that, despite good growing conditions, availability of high quality inputs and constant hard work, producers find it increasingly difficult to operate on a profitable basis. Tempered by the need to reduce Federal deficits, our 1987 proposals would continue and expand efforts to address farm profitability. I would like to briefly highlight these priorities for the Committee.

Current and projected surpluses continue to depress farm commodity prices. Our 1987 request for ARS proposes a renewed effort to find new markets and uses for these surplus commodities. As with most of the other complex problems we face, a single, simple solution does not appear likely. Therefore, the ARS research will explore a variety of avenues to develop new outlets for corn, wheat, soybeans and cotton. We have already consulted with industry and will continue to encourage this cooperation to emphasize those projects with the greatest potential for market success. Other projects in this initiative will focus on new uses for dairy products, new technologies to enhance export opportunities and new fresh fruit and vegetable products. The results of this research could provide an entry for agricultural commodities in the production of feedstock and specialty chemicals, new packaging and bonding materials and new food products to serve overseas markets and replace imports.

Dr. Kinney will provide more details on this important initiative. Mr. Chairman, I urge the Committee to give this proposal the high priority it deserves. Given advancements in basic sciences and biotechnologies, I truly believe we have an opportunity to make some significant developments to assist American farmers in regaining profitability and export competitiveness.

To assure continued crop improvements in the longer term, ARS is proposing a $3.5 million increase in plant germplasm research. With increased pressures to produce with fewer inputs -- less water, fertilizer and chemicals -- it is essential that plant breeders have available a diversity of genetic material to impart disease resistance, drought tolerance and other characteristics into crop plants. Advances in genetic transfer and other biotechnologies will make this genetic diversity more immediately usable.

We are also exploring opportunities to develop new crops for American farmers, continuing an effort set in motion by a 1984 Secretary's Challenge Forum. A task force of university, industry and government experts is identifying opportunities for new crops which could provide American farmers with a new source of income.

Our budget in support of university research reflects the continuation of an important trend begun in 1985 with the increased funding for competitive research grants. Each of our program announcements has been met with an overwhelming response of excellent proposals. In fact, in 1985 we were able to award only one grant for every five proposals. These grants were awarded to a range of university, nonprofit, state and Federal researchers -- many who would not be eligible under other USDA programs. We are excited about the interest expressed by the research community in working on the basic agriculture topics addressed in this program. We look to the Committee for continued support of this important program.

The budget includes some significant reductions in Extension funding, as you know. First, we are again proposing to eliminate funding for the earmarked programs. Prior funding in these areas has provided for development of programs which can be continued with formula funds or State and local funds. Also proposed is a 50 percent reduction in the general formula programs. Under the proposed funding level, we will continue to provide assistance to States in identifying priorities, adapting research results and coordinating efforts among local extension services. While these are large reductions, we are confident that the extension system will survive with the support of state and local governments.

Formula distributions provide the greatest flexibility in addressing priorities at the local level. Assistance to farmers in financial stress, support for programs under the 1985 Farm Bill and conservation of natural resources will be given high priority in 1987. Extension has been a major factor in assisting farm families with financial concerns -- 100,000 families have received assistance in the past two years. Estimates indicate that more than twice this number need this type of assistance.

New conservation programs authorized in the 1985 Farm Bill provide farm operators with a more complex set of decisions that will influence their ability to operate profitably. In the case of the conservation reserve program, farmers could enter into long-term land retirement contracts. The long-term nature of this program presents a new dimension in the decision process. Extension has already provided information to the States and will continue to coordinate the development of decisionmaking programs to help farmers identify the most advantageous level of participation. Extension will also be assisting with the implementation of the dairy herd buyout program and other changes in the farm legislation.

Although much smaller in terms of budget level than the other science agencies, the National Agricultural Library remains a vital factor in research advancements. Only by making available the wealth of agricultural literature can we continue to be a world leader in research advances and application. NAL will be pursuing planning in support of a coordinated nationwide network of university agriculture libraries to make this information available in the most efficient manner to all who need it.

Before I conclude, I would like to review just a few of the important contributions our people have made in the past year.

- Through genetic engineering, ARS scientists developed an antigen which would be the basis for a vaccine to protect poultry against coccidiosis -- a disease which costs producers $300 million annually.

- Two new forage grasses have been developed which combine desirable growth characteristics and palatability to lower costs and increase livestock weight gain. Seeds will be released later this year.

- Results of a biotechnology competitive research project provide the basis for a means to more quickly select superior progeny from citrus breeding programs. Basic research carried out through this competitive grant was essential to addressing a practical breeding problem.

- A computer program developed by the Kansas extension service and used by others assists beef producers to reduce risk and improve profits through better decisionmaking.

These are only a few examples of the progress we have made. With your support, these programs will continue to demonstrate a high payoff.

DR. BENTLEY'S REMARKS

Dr. BENTLEY. Thank you.

I would like to start by reading the first paragraph.

Given limits on overall funding levels to meet deficit reduction targets, we have made a number of very difficult decisions in compiling our budget plans. Overall, the Science and Education budget totals $913 million, down from the 1986 estimate of $1.1 billion. Much of this decrease results from elimination of special research grants and reductions in Extension funding. Many of the reductions are proposed on the same basis as in prior years—that earmarked programs can be funded from other sources if accorded a high priority by the States. Instead, our request emphasizes support for basic scientific research crucial to future developmental advances, and research and extension to bolster farm profitability. I would like to review some of the proposals very briefly.

First, anytime one speaks of budget preparations for agriculture, or food and fiber industries in 1987, he would have to recognize that American farmers and those who are concerned with the food and fiber industries are in very difficult economic times, and that this transition is a difficult one. Anything that can be done to assist in this area will be most important to the future of this industry.

ARS INCREASES

First, a few comments in connection with ARS. The currently projected surpluses continue to depress farm commodity prices. As you have already stated, Mr. Chairman, we are looking at funding requests having to do with new markets and new uses for commodities that are now in surplus production. We recognize that this is a difficult area and it is not one where an easy answer can be found. But the ARS research will continue to explore and extend programs to develop new outlets for corn, wheat, soybeans, and cotton, and to consider other potential new crops that might find a niche in our great farm system. We have talked with industry about these projects. We have talked, for example, about dairy products and about technologies to enhance export opportunities for fresh fruit and vegetable products. The results of this research could provide for agriculture commodities in feedstocks, specialty chemicals, new packaging and bonding materials, and new food products that serve not only the domestic market but can also be placed in export. Dr. Kinney will be talking more about some of the details of this program a little later.

We also want to stress a point that you made, Mr. Chairman, about the $3.5 million increase in plant germplasm research. We think this is a very important Federal responsibility and shows promise of finding new genetic material that will deal with disease, insect resistance, drought tolerance, and other characteristics we would like to introduce into our crop plants.

Also, in the area of genetic transfer and the use of biotechnology we have some new tools that might make it possible for us to enhance the genetic material that we have already stored in our great germplasm bank. In addition, we need to evaluate genetic material. We now have to determine whether or not there are some desirable characteristics that we should incorporate, whether it be forest plants, trees, vegetables or plants, et cetera. There is an expanded need to look at the germplasm relationship to our livestock industry.

CSRS BUDGET

Our budget for the Cooperative State Research Service reflects continued support for programs of our universities, and it sustains funding for competitive research grants. It is very heartening to note that with the support of the Congress and the administration, we are able to initiate a program that has been exceedingly well received. In 1985, we were able to award only one grant for every five proposals that were submitted for review. These grants have gone to universities, nonprofit organizations, State and Federal researchers, all of whom are eligible to compete for funding under the Competitive Research Grants Program.

REDUCTIONS UNDER EXTENSION SERVICE

The budget, as you have already referred to, Mr. Chairman, has significant reductions in Extension funding. First, we are again proposing to eliminate funding for earmarked programs. Prior funding in these areas has provided for development of programs which can be continued with formula funds or State and local funds. Also proposed is a 50-percent reduction in general and formula programs. Under the proposed funding level, we will continue to provide assistance to State-identified priorities, adapting research results, and coordinating efforts among local Extension services. While these are large reductions, we are confident that the Extension system can survive with the support of State and local government. Part of the consideration here is that the formula for funding distributions both for Extension and for cooperative research services, including the State Agricultural Experiment Stations, provide flexibility for addressing priorities at the local level. We are pleased to note that the Extension Service has been providing assistance to farm families with financial concerns—100,000 families have received assistance in the past 2 years. It is estimated that there is an increased need for this service. In fact, many States say they can double the number of people who are looking for assistance.

1985 FARM BILL

Turning now to some comments about the 1985 farm bill and its implications for science and education. The initiation of the Conservation Reserve Program that enabled farmers to enter into long-term land retirement contracts raises some new questions. We think here is a place where Extension is able to supply helpful information. Likewise, in the implementation of the Dairy Herd Buyout Program, there are new dimensions that need a good deal of consideration by decisionmakers relative to the programs.

NATIONAL AGRICULTURAL LIBRARY

You have not requested a statement from the National Agricultural Library, but I just wanted to add to my general comments that we are asking for relatively level funding for this Agency in 1987. We think of the National Agricultural Library as a very integral part of our research and extension education program activities not only in science and education, but in the Food and Nutrition Service as well. We are stressing the expansion of the nationwide network for libraries that include the agricultural libraries of our universities, and especially those from the land-grant colleges and State universities.

These few remarks cover the major points relative to each of the agencies. We hope that each of the administrators will expand on them.

BIOTECHNOLOGY RESEARCH

Let me conclude by saying these are very difficult times in some sectors of agriculture. It is a time of excitement and great opportunities in the application of research, of molecular biotechnology to agriculture. For example, through genetic engineering principles applied to agriculture, the ARS scientists have developed an antigen which can be the basis for a vaccine to protect poultry against coccidiosis—a disease of poultry. It has been around for a long time and is estimated to cost producers about $300 million a year. New forage grasses have been introduced and modified as a result of careful understanding of the molecular makeup and genetic makeup of these grasses.

In addition, we have been able to select superior progeny for citrus breeding programs. The expansion of knowledge relative to biotechnology and bioengineering has greatly enhanced the capability of our plant and animal breeders, and those concerned with insect development and so on. We have strengthened our capacity to control disease and insects in all of our major crops and in looking at some of the problems dealing with the microorganisms of the soil as well. The microorganism-plant environmental interaction is a very complex one, and a very exciting one. We think with the new tools we have we can deal with them in a more effective manner and may come up with answers to some of the old problems we have been dealing with, as well as improving efficiency and effectiveness of our crops, of our livestock, and the utilization of our resources in the biofood industry.

TECHNOLOGY TRANSFER

Finally, there is a need for utilizing computer technology, communication systems to help make decisions by farmers and by the people in the marketing process dealing with food and fiber. We think this is important. For example, this assists beef producers to reduce risk and improve profits through better decisionmaking.

It is really exciting to go around the country and to see the new ways and new developments that farmers and ranchers are utilizing in terms of food and fiber production.

I am pleased to have the opportunity to make this overview statement. We, of course, will be pleased to have questions.

Mr. Chairman, I would prefer that we go ahead with our statements and turn to Dr. Kinney.

AGRICULTURAL RESEARCH SERVICE

Senator COCHRAN. I think it would be a good idea to hear from your associates. Dr. Kinney is here, along with Dr. Jordan and Mary Nell Greenwood, who are in charge of the day-to-day operations of these very important agencies. I think it would be good to hear from them, any comments that each of the administrators have. We will start with Dr. Kinney.

PREPARED STATEMENT

Dr. KINNEY. Mr. Chairman, I appreciate this opportunity to appear before this committee again. I would like to submit my complete statement for the record.

[The statement follows:]

STATEMENT OF DR. TERRY B. KINNEY, JR.

Mr. Chairman, once again, as Administrator of the Agricultural Research Service (ARS), I have the pleasure of making an annual report to you and other members of the Committee on budget recommendations for the coming year. I also want to discuss some significant progress made last year by ARS in helping farmers and other users of our research solve problems; and to outline the key strategies that ARS expects to follow in carrying out our responsibilities during the next several years.

Mr. Chairman, I again want to emphasize that the Agricultural Research Service is a problem-solving organization, geared to assisting American agriculture. The nature of a particular problem determines the type of research, fundamental or applied, needed to solve the problem. Although we cooperate and work closely with State agricultural experiment stations and universities, our Agency itself is not involved with teaching. Our scientists devote their full time to research, helping solve high priority problems of farmers, ranchers and USDA action agencies.

To make sure that our Agency has a growing number of outstanding young scientists with a knowledge of the most modern research techniques, we are once again expanding our post-doctoral Research Associates Program. Last year, we recruited 50 Research Associates; this year, we are recruiting 100. Each has recently earned a Ph.D. in a discipline we need to solve specific research problems. Now the Office of Personnel Management is allowing us to employ even more post-doctoral scientists, and our field locations are taking full advantage of this opportunity.

In addition, we support 170 regular post-doctoral positions under cooperative research agreements with most of the land-grant colleges and universities.

Association with these young and enthusiastic recent post-doctorals stimulates the thinking of our more senior scientists. Bringing them on board also makes subsequent recruitment easier, since we can evaluate post-doctorals for a year or two in our own laboratories before deciding to make them offers of permanent employment.

FY 1987 Budget Request

Mr. Chairman, the ARS budget recommendation reflects a net increase of $13.5 million for research on commodity conversion and delivery and plant productivity. I am proud but cautious concerning our budget recommendation. I am proud that despite the overall tough budget situation facing the nation, Executive Branch decisionmakers have placed additional trust in ARS scientists by authorizing increased appropriations. On the other hand, my pride is tempered by the realization that high expectations exist for our scientists to deliver answers to fundamental problems facing U.S. farmers--what to do about crop surpluses and high production costs. Given these problems' complexity and magnitude, it is a tremendous responsibility. Given our track record for solving problems and the commitment to excellence of ARS scientists, I'm optimistic about the challenge. We will need this Committee's continued support, encouragement, and guidance in meeting this additional responsibility.

I would like to highlight additional information on the increased programs. We have restored all of our program areas to pre-Gramm-Rudman levels and focused our enhancement in two essential areas. First, $10 million would be provided to develop ways to (1) utilize surplus corn, wheat, soybeans, cotton and dairy products; (2) overcome barriers for commodity exports; and (3) develop new lightly processed fruit and vegetable products.

Mr. Chairman, this is a carefully planned program of research to address the high current and projected crop and dairy surpluses and increased competition in world makets. We have consulted with industry to develop research ideas to pursue projects with market opportunities in the short- and longer-term horizon. Our objective is to provide the basis for agricultural products to penetrate new domestic and export markets and displace imports. Extensive application of advanced biotechnologies will be an important feature of this initiative. We look to the Committee for support in carrying out this research which is so vital to the future of American farmer.

Our ongoing work in the area of new and alternative crops has received increased attention as another means of assisting farmers. Much of this work is being conducted cooperatively through the State Experiment Stations.

Our second proposed increase is $3.5 million for crop germplasm evaluation and improvement. This proposal has been developed to provide information on what genetic diversity exists in our germplasm collections, to bring greater diversity into more usable genetic combinations, and to develop knowledge of how genes regulate plant growth and development and how plant gene expression is controlled.

Mr. Chairman, I cannot overemphasize the importance of this increased level of germplasm work. As you know, international political and economic developments, combined with the demands on the environment of an increasing world population, have threatened the availability of genetic diversity essential to further improvements in crop plants. Significant advances in genetic transfer technology and other biotechnologies offer the potential for future improvements in disease and drought tolerance, productivity and quality --but only if we have the basic genetic materials to utilize. Crop improvements in these areas have the potential to reduce the need for costly inputs of chemicals, fertilizer, and water while at the same time conserving our valuable natural resources.

We are prepared to provide the Committee whatever additional information you may require to support our requests in these two vital activities.

ARS Challenges and Accomplishments

As the national agricultural research agency, ARS must address the immediate problems facing U.S. agriculture--high farm production costs and loss of export markets. Current research is focused on developing improved production practices to maintain and ensure crop productivity and reduce costs; to conserve natural resources by controlling erosion and maintaining groundwater quality; to control important animal diseases such as avian influenza and brucellosis; to maximize use of agricultural products for domestic and export market; and to promote human health and well being through improved nutrition.

ARS scientists were able to make significant progress last year in all these areas. Specific examples of achievement are:

o A computer program developed by ARS in Mississippi that helps cotton growers make better crop management decisions, thus reducing crop losses and production costs by an estimated 10 percent. This existing program is a cooperative effort of Mississippi State University, Clemson University, the Cotton Foundation, farmers, and industry.

o Development of a genetically engineered antigen that helps protect chickens against a parasite that causes coccidiosis, an intestinal disease of poultry that costs the industry $300 million a year. The work was done at Beltsville in cooperation with a private biotechnology firm, which has a patent on the antigen. It is being evaluated by a commercial pharmaceutical house for market potential.

o A cross of fescue and ryegrass called Johnstone fescue, developed by ARS in Kentucky, that combines long life and resistance to stress with the palatability of ryegrass. The result is a 30 to 50 percent increase in daily weight gain for cattle. Through a special agreement between ARS and the Kentucky Agricultural Experiment Station, a quantity of seed has been made available, by license, to a Kentucky seed company for commercial production.

o Surge irrigation, a technology that reduces farmer costs by using less water and energy while maintaining high crop yields. It is being adopted rapidly by farmers in the Southern High Plains.

o Heat tolerant varieties of Pima cotton that result in a 50 percent increase in commercial yields at lower elevations in Arizona. U.S. exports of this long-staple, premium cotton have increased during the last 5 years.

o The virtual elimination of yellow dwarf virus on oats, which once destroyed 25 to 30 percent of the crop in the Northern United States, by using resistant germplasm lines. The program now aims to incorporate similar resistance in barley and winter wheat.

o A quarantine treatment schedule for in-shell walnuts that is expected to permit export of walnuts to Japan this year for the first time. Walnuts have been barred because they are considered a host of codling moth.

o Applications to fruit trees of an experimental chemical that controls growth, increases fruit quality and quantity, and reduces the need for hand pruning. Registration for commercial use appears likely.

o In Florida, a special process for debitterizing early season grapefruit juice and navel orange juice that offers potential savings for the citrus industry. A Florida processor has agreed to evaluate the process, which uses a byproduct of the corn sugar industry.

o Granola-type bars containing 12 percent guar gum that reduced the need for insulin in both men and women with adult-onset diabetes. Five guar bars a day, eaten before meals for 6 months by test patients, helped slow down absorption of carbohydrates and smoothed out blood glucose levels between meals.

o Collecting white blood cells needed for research on infectious diseases and vaccines in a hollow sphere implanted easily under the skin of research animals. Thanks to this ARS research at Auburn, Alabama, it is no longer necessary to bleed the animals repeatedly or to sacrifice them.

o Experiments to improve the efficiency, effectiveness, and acceptability of intransit, shipboard fumigation and to demonstrate the effectiveness of a new chemical protectant. The result is two new alternatives for control of insect infestations of U.S. wheat, corn, and soybeans that have impressed even our most exacting customer, the U.S.S.R.

Use of these new procedures will greatly increase the image and quality of our grain exports.

o The discovery that vitamin C, a dietary antioxidant, will protect the human eye against light-induced lens damage that occurs with age. This research should lead to dietary recommendations which serve to enhance the quality of life of our elderly through the prolongation of optimal vision.

o Mozark, a new variety of fescue that eliminates a toxic fungus, could save livestock producers an estimated $63 million a year in Missouri alone. Pasture trials of the tall grass resulted in a 30 percent increase in average daily weight gains for calves and yearlings. Small amounts of the seed stocks will be released to growers this fall.

Operational Strategy

Mr. Chairman, as you have emphasized and we fully agree, ARS must concentrate available resources on high-priority national problems that others cannot or will not address. Given the continuing constraint on resources and complexity of research problems facing the farming community, I believe ARS must be guided by some very fundamental program management strategies. I plan to give special emphasis to program relevance and technology transfer.

o We will continue to address technical problems that are determined to be the most critical to the U.S. food and agricultural sector. To increase program relevance, we must continue to improve our communication with research user groups and policymakers, including you and members of your committee, and focus our resources on fewer problems to maximize the probability of success. Only in this way we will achieve the most effective use of our resources. Our $10 million initiative in the commodity conversion area exemplifies this approach.

o We will further strengthen our communication networks and data management systems to support research programs and facilitate technology transfer. Computer models of crop and animal production, soil erosion, and other systems are becoming useful vehicles for expressing the state-of-the-art of many areas of scientific research. Agriculture is rapidly moving toward using both models and expert systems on the farm, in government, and in agribusiness.

This concludes my prepared remarks. Before closing, however, I want to thank you, Mr. Chairman, and Members of this Committee for the steadfast support you have provided over the years. We appreciate your support and guidance. I will be pleased to answer questions you may have.

REMARKS BY DR. KINNEY

Dr. KINNEY. I have two or three issues that I would like to take 2 or 3 minutes to cite.

First of all, I want to say, again, that ARS is a problem-solving agency. We believe research is necessary to fulfill that mission. We establish research priorities in close cooperation and communication with the Congress, with industry groups, with farmers, with the Department, and anyone else that we serve or cooperate with. We have short- and long-range plans to assure that our highest priority research is carried out; that the needs of the people are addressed; and that we will have the expertise and resources available to fulfill our mission today and in the future.

RESPONSE TO CONGRESSIONAL DIRECTIVES

There are two items that I would like to submit for the record, Mr. Chairman. There were 46 issues that were addressed to ARS in the 1986 appropriation actions. I would like to submit the summary of our actions for the record.

Senator COCHRAN. That will be included in the record.

[The information follows:]

Agricultural Research Service
Actions in Response to Congressional Directives
(FY 1986)

1. Food Toxicology. Recommends $200,000 for the continued assessment of dioxin contamination in the Great Lakes food chain and the agricultural production system.

   ARS will continue in 1986 to support grants totaling $190,300 at Michigan State University for toxicology research on dioxin under the direction of Dr. Lawrence Fisher, Director of Center of Environmental Toxicology.

2. Integrated Production Research. For the South Central Agricultural Research Center at Lane, Oklahoma, recommends $500,000 an increase of $200,000 above the budget. These additional funds will be coordinated with the expansion of the Center.

   Additional funds of $200,000 will be used to support a plant pathology research scientist on post-harvest disease problems of fruit and vegetables. This increase brings the total base support at Lane to $498,900 and 3 SYs.

3. Tracheal and Varroa Mites. Will expect the Department to devote the necessary resources to this field of research. Directs ARS to increase attention given to research on the Varroa mite.

   ARS established in 1985, a new bee research laboratory at Weslaco, TX, to specifically address the tracheal mite problem. Base resource levels are $322,500 and 2 SYs. Plans in 1986 are to further strengthen this research. Varroa mite research is carried out via cooperative research in foreign countries, since the mite is not present in the U.S.

4. Pesticide Research. Will expect adequate resources to be directed to pesticide research which is also a priority research field for the beekeeping industry. Expects ARS to continue research in this field. The Committee is aware of laboratory space in an ARS facility in Stillwater, OK, which could be utilized for such research.

   ARS currently conducts bee pesticide research at Weslaco, TX; Beltsville, MD; Madison, WI; and Tucson, AZ. Estimated resource levels are $120,000 and 0.8 SY. Plans in 1986 are to consolidate the Stillwater program at Weslaco to achieve a stronger critical research mass on pesticides as related to tracheal mite control.

5. Nutrition Research. The Conference agreement provided for (the following increases):

a) HN Center, Tufts University	$1,000,000
b) Children's Nutrition Research Center	1,000,000
c) North Dakota HN Center	400,000
d) Beltsville HN Center	200,000

ARS will use these increases for expanded research as follows:

a) Tufts - nutritional requirements of the elderly
b) Baylor - nutrition studies on infants, children pregnant and lactating mothers
c) Grand Forks - trace mineral dietary requirements
d) Beltsville - metabolic functions of nutrients; dietary needs to maintain health, prevent diseases.

6. National Arboretum. An increase of $500,000, this increase when added to the restoration of the five percent pay reduction will restore the funding level for the Arboretum to approximately the same level as last year.

   Increase funds will be used to support the existing Arboretum program, rather than adding new scientists or otherwise expanding the program. Initially funds will be used to improve laboratory and greenhouse space.

7. Catfish Breeding. Recommends (an increase of) $500,000 to establish a catfish breeding, genetics and endocrinology program at the Delta States Research Center.

   Funds will be used in 1986 for catfish pond construction, followed by establishment of a 2 SY program in 1987. Research will emphasize catfish genetics for efficient meat production and disease resistance. In cooperation with Delta Council and Mississippi Catfish Growers Association, land leases and design criteria for pond construction are currently being negotiated.

8. Water Conservation. Increase of $250,000 to augment the existing plant stress and water conservation research now underway at Texas Tech University and the Texas Agricultural Experiment Station.

   This program increase will bring the ARS base resources on plant stress research at Lubbock, TX, to a total of $1,243,500. The new funds will strengthen existing research efforts aimed at solving drought problems by adding one scientist to the program.

9. Fruit Research. Expects the Department to give additional attention to the important research being conducted on post-harvest research at Wenatchee, as well as research on insect biology and pest management being done at Yakima, WA.

   Within existing resources at Yakima ($2,310,400) and Wenatchee ($1,013,700), ARS will continue research on pest problems and increase effort on post-harvest. At Wenatchee fire-blight research and biological control of pathogens research will be accelerated. An entomologist vacancy at Yakima will be filled to address insect genetics and management problems (codling moth, pear psylla).

10. Limited Tillage Research. Recommends $100,000 for (the continuation of) integrated weed control and management research in limited tillage systems for forages and crop rotation. Recommends $100,000 for (the continuation of) increased basic research and physiological-biochemical research leading to the protection of crops from the effects of weeds insects, diseases, and other pests.

    ARS is continuing these programs at Ithaca, NY, in 1986. The program was accelerated by a $200,000 program increase in 1985. These funds are a permanent part of the Crop Protection Research Unit at Ithaca.

11. Fresno Research Station. Recommended bill language to allow for the purchase of land at Fresno, CA, in order to relocate the existing research facility.

    Land in question is 30 acres owned by Sun-Diamond corporation adjacent to 20-acre U.S. Horticultural Field Laboratory at Fresno, CA. An appraisal conducted in 1985, valued the land at $15,000 per acre, or minimum total of about $450,000. Funds were not appropriated by Congress and are not available within the ARS appropriation to purchase the land in FY 1986.

12. Citrus Research. Recommended bill language to allow for the construction of the National Clonal Germplasm Repository for Citrus at Riverside, CA. Directs ARS to continue the Emergency Canker Research Program originally funded in the fiscal year 1985 continuing appropriations bill. One million dollars shall be made available for this program in fiscal year 1986 with $750,000 provided to the University of Florida and the remaining $250,000 to be used by the Agricultural Research Service facility at Orlando, FL.

    The citrus repository at Riverside, CA, is now in the A&E design phase and supported by a $475,600 design/construction allocation from 1986 ARS germplasm funds. Construction is expected to start later in 1986 and be completed in 1987.

    The citrus canker program will continue in 1986 with the $1 million recurring emergency funds appropriated in 1985 as adjusted by the general reduction provided by Conference action and Gramm-Rudman sequestration. ARS will continue a University of Florida cooperative agreement and provide funds to the Orlando ARS lab and to Beltsville, MD, where specialized research quarantine greenhouses exist in support of the Florida problem. Additional funds are allocated to canker research at Beltsville. The total ARS canker research program in FY 1986 (inhouse and extramural) is $1,106,000.

13. Beltsville Research Center. Expects to be kept fully advised as the Department works to restore and upgrade the Beltsville Agricultural Research Center.

ARS continues to give high priority to support of Beltsville research programs and physical resource maintenance. Since 1984, $4.2 million additional recurring base funds have been allocated to Beltsville for new and expanded high priority research efforts. An additional $2.3 million has been allocated on a one-time basis for facility upgrading in the past 3 years. A facility upgrading plan was formulated in 1985, with an 8-year projected cost-estimate of $162 million. Laboratory realignments have occurred to focus resources on the highest priority problems and science approaches. Current Beltsville base resource strength is $66.8 million and 400 SYs.

14. National Sedimentation Laboratory. Recommends an increase of $250,000 to expand the work now underway at the National Sedimentation Laboratory on the Yazoo Basin Demonstration Projects.

The $250,000 increase will be used to expand field evaluation of conservation measures, develop photogrammetric reconnaissance measures, and use erosion/sedimentation models to integrate watershed data. This increase along with the 1985 recurring increase of $350,000 brings the total Demonstration Erosion Control (DEC) project to the $570,800 level as adjusted by the general reduction provided by Conference action and Gramm-Rudman sequestration. A non-recurring $1.4 million 1985 allocation is being used for laboratory expansion; construction is now underway and to be complete in January 1987.

15. Tri-fly Research. (An increase of) $340,000 for work with the University of Hawaii to develop alternative means of eradicating the tri-fly infestation in Hawaii.

ARS and University of Hawaii officials have developed coordinated plans on use of this $340,000 increase. Emphasis of University projects will be on melon and oriental fruit fly species since ARS base program emphasizes med fly. Research thrusts will be on genetic and biotechnology approaches as well as field behavior/ecology studies. Both ARS and Hawaii will collaborate in field-scale pilot tests of eradication technology.

16. Grape Rootstock. Expects adequate funds (to) be provided for this research.

Grape rootstock research will be supported by ARS in 1986 at the $76,100 level. This research is at Fresno, CA. Other ARS grape research relates to diseases in grape germplasm (Fresno, CA, $50,700; Davis, CA, $104,700). ARS is coordinating with the University and industry in developing options for accelerating the grape rootstock research program at Fresno with a portion of the Davis funds.

17. Stirling Engine. Expects the Department to consider the possibility of funding research proposals for the Stirling Engine.

    The Department has actively considered this issue. An ARS assessment was conducted and a report submitted to Congress in early 1985. The Department's position is that further engineering developments of the Stirling engine are outside the mission of ARS and that funds to support this work are not available. ARS has expressed a willingness to consider participation in agricultural applications research, after the necessary additional engineering developments are complete.

18. Veterinary Medicine at Tuskegee Institute. Recommends (an increase of) $600,000 for planning for a new facility to be located within the School of Veterinary Medicine at Tuskegee Institute.

    Following reductions mandated by P.L. 99-177, the Balanced Budget and Deficit Reduction Act of 1985, $570,800 is available to plan a facility at the Tuskegee University School of Veterinary Medicine. It is our understanding that State funds will be provided in addition to the Federal support and that the facility will be located on university property. This arrangement indicates a State-owned, rather than a Federal facility. Therefore, the Department intends to make available through the Cooperative State Research Service a grant in the amount of the appropriated funds referenced above. The grant will provide for ARS use of the facilities in accordance with the language appropriating the funds.

19. Plant and Animal Sciences, University of Illinois. Recommends (an increase of) $3,000,000 for planning of a plant and animal sciences research center at the University of Illinois.

    Following reductions mandated by P.L. 99-177, the Balanced Budget and Deficit Reduction Act of 1985, $2,982,000 is available to plan a plant and animal science research center at the University of Illinois. It is our understanding that State funds will be provided in addition to the Federal support and that the facility will be located on university property. This arrangement indicates a State-owned, rather than a Federal facility. Therefore, the Department intends to make available through the Cooperative State Research Service a grant in the amount of the appropriated funds referenced above. The grant will provide for ARS use of the facilities in accordance with the language appropriating the funds.

20. Veterinary Medicine, Virginia Polytechnic Institute, Blacksburg, VA. Is aware of a proposal regarding phase III of the Virginia-Maryland College of Veterinary Medicine located at Virginia Polytechnic Institute in Blacksburg, Virginia. Will expect the Department to review this proposal and report to the Committee on its feasibility.

The proposal has been reviewed. Recommendations included in the proposal are for additional space and institutional facilities for the College of Veterinary Medicine. The classroom complex would be used as a lecture area, for classroom presentations to students and faculty, as well as for continuing education and scientific meetings. As proposed, the complex would not be used by USDA as an agricultural research laboratory or facility. The proposal would more appropriately be considered under the Research Facilities Act which provides assistance to finance State-owned facilities and equipment.

21. Dairy Forage. Recommends an increase of $200,000 for research at the Dairy Forage Research Center at Madison, WI, and its seven cluster locations.

    The $200,000 increase will be used at Madison to hire a new microbiologist to initiate research on microbial activity in silage preservation and on digestion/utilization of forages by dairy cows. This increase brings the total Dairy Forage Research Center funding to $1,962,000. Staffing is 86% complete. An additional 8 SYs and $873,000 are distributed among the 7 cluster locations.

22. Peach Research. Increase of $200,000 for research at the Appalachian Fruit Research Laboratory...to improve the tolerance of peach trees to environmental factors.

    This $200,000 increase will be used to accelerate existing research on peach cold hardiness research at Kearneysville, WV. Genetic, physiology, and biotechnology research approaches with post-doctoral research associates will be emphasized.

23. Soil and Water Conservation. Recommends an increase of $200,000 for the Appalachian Soil and Water Conservation Laboratory at Beckley, WV to provide additional staff at the Laboratory. Directs within available funds, to provide 14 full-time equivalent technical support positions to the Appalachian Soil and Water Conservation Research Laboratory at Beckley.

    From within available funds, ARS will allocate additional support to the Beckley laboratory for staffing of a new soil scientist.

    Fourteen support personnel positions at the Beckley, WV lab, now supported by cooperative agreement appointments with the University of West Virginia, will be converted to Federal positions beginning in the remainder of FY 1986.

24. Sunflower Research. Recommends an increase of $100,000 for a research project at North Dakota State University on the banded moth and other moths most harmful to sunflowers.

    These funds will be placed in the ARS Radiation and Metabolism Laboratory at Fargo from which a 3-year specific cooperative agreement with the Entomology Department at North Dakota State University will be established. Project documentation already has been processed.

25. Potato Research. Within the funds for pay annualization, use $150,000 for potato varietal development work in the Pacific Northwest. In addition, out of these funds the conferees will also expect the Department to give increased attention to potato research at Orono, Maine.

    The $150,000 increase funds will be placed at the ARS Laboratory in Prosser, WA, from which annual specific cooperative agreements will be established in Idaho, Washington and Oregon to support State potato breeding projects. In order to give increased attention to research at Orono, Maine, and in the northeast production area, ARS has allocated from within available funds a 1986 increase of $68,400 to Beltsville for genetic studies; this includes a $25,000 cooperative agreement with Maine. In addition, ARS has allocated in 1986 $60,000 for a 3-year cooperative agreement with North Dakota State University for continuation of ring-rot disease research which is of concern to potato growers in the Red River Valley region of Minnesota and North Dakota.

26. Fruit Fly. Directs the Department to continue Caribbean fruit fly attractant research.

    ARS is giving this research high priority at the Insects Attractants Laboratory, Gainesville, FL. Three scientists and a post-doctoral research associate are addressing this problem. Current research is focused on identification and synthesis of the Caribbean fruit fly sex pheromone. It is the expectation that this pheromone will be incorporated into a lure for fruit fly trapping and control purposes.

27. Grasshopper Fungus. Recommends the same level provided in 1985.

    The same level of research activity on the fungus Entomophaga grylli will be continued in 1986. Cooperative agreements are in place with North Dakota State University ($54,600) and South Dakota ($10,000). The ARS Lab at Ithaca, NY, oversees this research. In addition, ARS conducts in-house research at Bozeman, MT, on biology and control of grasshoppers ($634,400). National Program Scientists are concerned about the potential for further progress on this program and will seek to improve the project direction and productivity.

28. Hops Research. Directs that the USDA-ARS support of hops research in fiscal year 1986 operate at the current level. Expects that all personnel will be retained. Will expect the Committee to be informed prior to any program or personnel changes.

The ARS hops research program is located at Corvallis, OR, and will continue in 1986 at the $191,000 level, the same as in 1985 as adjusted by the general reduction provided by Conference action and Gramm-Rudman sequestration. This funding level includes $75,000 for support of extramural research at Washington State University. ARS has no plans for program or personnel changes for hops research in 1986.

29. Leafy Spurge. Expects the Department to continue funding this program at no less than the fiscal year 1985 level.

ARS continues to give high priority to this troublesome rangeland weed in the Northern and Central Great Plains. ARS funding in 1986 will be $604,500, the same as in 1985 as adjusted by the general reduction provided by Conference action and Gramm-Rudman sequestration. Seven research locations are involved (Albany, Bozeman, Lincoln, Fargo, Sidney, Frederick, and Rome). Research approaches are biological and chemical controls.

30. Rice Research. Expects to at least continue the research activities and staffing levels at the Stuttgart facility commensurate with recent-year levels.

ARS base funding and staffing levels for rice research will continue in 1986 at previous year levels. This includes a total of $197,600 for genetics and weed control research.

31. Integrated Pest Management. Directs that, within funds available, the Federal-State cooperative research program on yellow star thistle be continued.

ARS conducts in-house research ($90,900) at Albany, CA, on biological control of yellow star thistle. An additional $90,900 will continue to be used to support a cooperative Idaho project. ARS is concerned about the poor progress of the Idaho research and its lack of focus. National Program Scientists will review the Idaho research in 1986 and seek to improve the project direction and productivity.

32. Peas and Lentils. Supports continued funding at the 1985 level for pea and lentil research in the Pacific Northwest.

> ARS pea and lentil research in the Pacific Northwest will be at the $584,400 level in 1986, $120,100 higher than the level in 1985. The increase supports accelerated germplasm evaluation research at Pullman, WA.

33. Lygus Bug. Recommends that funding be provided to continue the program to control lygus bug on peas and lentils.

> ARS is continuing to fund a cooperative agreement on this problem with the University of Idaho. A $55,000 project will be completed in June 1986. Research to date shows that chalky spot damage to pear and lentils is partially attributable to insect species other than Lygus.

34. Vegetable Oil as Fuel. Directs that of the funds provided to ARS, $100,000 be utilized for research being conducted at Moscow, ID, on the use of vegetable oils as a replacement for diesel fuel.

> ARS will continue to support this research via a specific cooperative agreement with the University of Idaho using base funds from Tifton, GA. Research focus is on rapeseed and sunflower oils as supplements to diesel fuel.

35. Biological Control. Supports expansion of this research effort and urges USDA to be cooperative in every way possible.

> Research on the discovery of biological control agents for mole crickets is continuing at the University of Florida. ARS is partially supporting this research in 1986 with a $28,500 cooperative agreement.

36. Lesser Cornstalk Borer, Mole Cricket, and Diaprepes. This work should be continued.

> ARS at Tifton, GA is continuing in 1986 to support extramural research with the University of Florida on the lesser cornstalk borer and mole cricket; a $28,500 cooperative agreement is continuing on each species. Diaprepes (citrus and sugarcane root borer) research is being conducted in-house by ARS at Orlando at the $272,100 level in 1986.

37. Tropical/Subtropical Research. Recommends an appropriation of $735,000 for tropical and subtropical research programs under Section 406 of the Agricultural Trade Development and Assistance Act. This is the same amount as provided in 1985.

> ARS is continuing in 1986 its component of the Section 406 Tropical Agriculture program. Two in-house projects are supported, one at Mayaguez, PR ($532,700) on genetic improvement of tropical crop germplasm. The other is at Hilo, HI ($166,600) on reduction of post-harvest losses of fresh tropical fruits in marketing channels.

38. Bee Research. Recommends funding at the fiscal year 1985 level.

> ARS will continue in 1986 the honey bee research program at the same level as in 1985. The 1986 funding level is $3,420,000 as adjusted by the general reduction provided by Conference action and Gramm-Rudman sequestration.

39. Chalkbrood Syndrome. Expects that work on chalk brood syndrome will continue at the $100,000 level.

> Chalkbrood research will continue at the $95,100 level as adjusted by the general reduction provided by Conference action and Gramm-Rudman sequestration. In past years, most of the funds have been expended via specific cooperative agreements with several Pacific northwest universities.

40. Heliothis. Expects the Department to work in consultation with the Environmental Protection Agency (EPA) to determine the appropriateness of providing a portion of the funding necessary to carry out a proposal to demonstrate the effectiveness of utilizing special electrical lighting, which has been suggested by GTE, the University of Georgia and others, to control the Heliothis complex, which includes tobacco budworms, pink cotton bollworms, and other pests.

> ARS has had several meetings with GTE representatives and is now soliciting a formal proposal of their research plans and budgetary requirements. ARS will consider in consultation with EPA the appropriateness of funding a portion of this electrical lighting research to control Heliothis. At the present time, ARS does not consider this research approach very promising, based upon an analysis of past relevant research and the behavior/migration pattern of this insect species.

41. United States-Hebrew University Tropical Animal Research Agreement. Interested in the possibility of a joint exotic foreign animal disease research agreement between an American and a foreign institution of higher learning. Such an agreement has the potential to add to the veterinary body of knowledge that would benefit all parties. Accordingly, the Committee directs the ARS to undertake a feasibility study regarding such a joint agreement.

> An ARS committee has met to consider this issue. Committee members include representatives of ARS, APHIS, University of Florida, and University of California. ARS supports the concept of collaboration between domestic and foreign universities because of the opportunity to develop control technologies for potentially threatening exotic animal disease organisms. The Department can neither promote nor support a research agreement with Hebrew

University to the exclusion of other universities. The current budget situation prevents financial commitment from the Department for the United States-Hebrew University tropical animal research agreement.

42. Transfer. Within the funds for pay annualization, the Department should use $200,000 for the transfer to the Office of the Assistant Secretary for Science and Education for international scientific consultations on issues involving agricultural chemicals and food additives as they impact trade in agricultural products.

ARS has allocated $200,000 1986 funds for use by the Office of the Assistant Secretary to support scientific studies and consultations with Japan on commodity export and agricultural chemical residue issues.

43. Germplasm Collection Facility. Recommends $2,700,000 for construction of a germplasm collection facility in Aberdeen, ID. In 1985, the Committee provided $300,000 in planning funds for this facility. The Committee reiterates its view that Aberdeen is an ideal site for this facility, and, therefore, will expect no further construction on a similar facility at Beltsville, MD, until such time as a site selection and the planning has been completed for the facility at Aberdeen.

The conferees agree that the germplasm facility to be constructed at Aberdeen, ID, shall not duplicate the facility currently at Beltsville, MD, and shall work in cooperation with the Beltsville germplasm facility. Furthermore, the Conferees agree that no personnel, equipment, or other resources shall be transferred from Beltsville to Aberdeen to staff or equip this facility.

ARS is proceeding, in cooperation with the Idaho Agricultural Experiment Station, with the planning and design of a germplasm collection research facility at Aberdeen, ID. Design and construction estimated to require 2 years. The new facility will neither duplicate those at Beltsville, MD, nor will personnel and funds be transferred from Beltsville to Aberdeen. Placement of the existing and future small grain seed collection will be determined after clarification of Congressional intent.

44. Metabolism and Radiation Research Laboratory. Expects the Department to proceed with the construction of the Metabolism and Radiation Research Laboratory as directed in the 1985 Agriculture appropriations bill.

ARS is actively proceeding with the design of the new plant science research facility at Fargo. The final design is expected to be complete in March 1986. Construction bids will be solicited in April 1986. Estimated construction completion is August 1987. Total obligations will be $9.1 million.

45. Agricultural Science and Industry Facility. The Committee is interested in a proposal to establish an agricultural science and industry facility at Pennsylvania State University. Recommends $50,000 to conduct a feasibility study of the Pennsylvania State University proposal. Report to the appropriate committees of Congress by January 1, 1986.

> The Associate Administrator of ARS will chair a committee made up of representatives from Pennsylvania State University, CSRS, and Industry to conduct a feasibility study of the University proposal. The Committee will meet in March 1986 and a final report will be available this summer.

46. Regional Veterinary School in Nebraska. Request a report not later than February 1, 1986, on the use of the funds appropriated in fiscal year 1984 for a regional veterinary school in Nebraska. The regional approach having failed, it is proposed that the funds be used for a clinical facility for training veterinary students from Nebraska and Kansas and for research in the areas of food processing, transportation and marketing systems.

> The $12,050,000 appropriated to ARS in FY 1984 is still available. In addition, planning funds in the amount of $827,000 made available for that project in FY 1983 are available. A plan provided by the Conference Report proposed the funds be used for a clinical veterinary training facility and for research in food processing, transportation and marketing systems. The Department will implement the plan.

BELTSVILLE AGRICULTURAL RESEARCH CENTER

Dr. KINNEY. Thank you, Mr. Chairman.

I would also like to submit for the record a summary of actions that have been taken during the past year with regard to the Beltsville Agricultural Research Center. We have been advised repeatedly that we should do everything possible to make that Center a center of prominence, and we have done some things that are moving us toward that end. I would like to submit a brief summary of those actions.

Senator COCHRAN. We appreciate having it. It will be included in the record.

[The information follows:]

Beltsville Issue Update

Background: In the House Hearings on Appropriations for FY 1985 (p. 362-3) and for FY 1986 (p. 92-3), Chairman Whitten asked the Department for a commitment to reestablish the Beltsville Agricultural Research Center to the prominence that it held before the 1972 reorganization of the Agricultural Research Service. Moreover, H. R. Report No. 99-211 (p. 31) contains the following directive: "The Committee will expect to be kept fully advised as the Department works to restore and upgrade the Beltsville Agricultural Research Center."

Some Major Actions by ARS

1. In 1983, the operation of ARS, in accordance with one strategic program plan, was reestablished. This was achieved by greatly strengthening the role of the National Program Staff in setting priorities and in allocating resources in accordance with priorities. All National Program Staff positions have been moved to Beltsville. Also, the Administrative Management Services personnel have been relocated from Peoria, Oakland, and New Orleans, to Beltsville.

2. Since 1984, $4.2 million additional recurring appropriations have been allocated to Beltsville for new and expanded high priority research efforts. An additional $2.3 million has been allocated on a one-time basis for facility upgrading in the past 3 years.

3. In 1985, a plan was developed for restoring and upgrading Agricultural Research Service programs, facilities, and equipment at Beltsville. The most urgent items in the plan pertain to Center-wide improvements in physical facilities (e.g., roof repairs, steamline repairs, resurfacing of roads, construction for fire escapes, etc.). The second most urgent need is to acquire state-of-the-art research equipment and instrumentation. Also, the plan lists various needs in relation to repair and maintenance and energy retrofit of laboratories, and some new construction.

4. Programs in plant genetics and germplasm were strengthened by establishing the Plant Molecular Genetics Laboratory, the Germplasm Introduction and Evaluation Laboratory and the Germplasm Quality and Enhancement Laboratory.

5. Virtually all taxonomic research on plants, pests, and beneficial organisms was placed into the newly created Biosystematics and Beneficial Insects Institute. This action will enable ARS to better meet the needs of action agencies and to more uniformly improve the quality and productivity of taxonomic research.

6. Research was greatly strengthened in hydrology, remote sensing, and modeling and database management by creating the Agricultural Systems Research Institute. This action will enable ARS to better meet the needs of SCS and other action agencies.

7. Research in agricultural engineering was revitalized by establishing the Sensors and Control Systems Institute. This action will lead to efficiencies in marketing and production through the application of sensing and control principles.

8. A modern small animals research facility was constructed to facilitate research on parasitic diseases of poultry and livestock. A gene transfer facility is being constructed to facilitate livestock improvement through genetic engineering. Steamlines for heating a portion of the greenhouse complex have been upgraded. Funds have been committed to replace the roof of the BioScience building and to totally renovate a building for research on plant molecular genetics.

9. Two areas of human nutrition research were strengthened substantially. The first area, obesity and energy metabolism, was strengthened by constructing the only human calorimetry facility in North America. An international expert was placed in charge of this research. The second area, effects of sugar and copper consumption patterns on heart disease, was strengthened by forming a team of animal scientists and human nutritionists. This team has developed the use of swine as an excellent model to investigate the dangerous effects of copper deficiency.

TECHNOLOGY TRANSFER

Dr. Kinney. Finally, I would like to mention one thing that I know is very important to all of us and that relates to technology transfer. Sometimes I think we rather glibly talk about transferring technology once you hand it over to the users. Approximately 10 years ago, our Eastern Regional Research Center did some research relating to the lactose intolerance that many people have. In fact, 75 percent of the adult population in the world is intolerant in one degree or another to milk. That is rather amusing in light of the tremendous surplus of dairy products that we have. This large a population has the tolerance problem and can't consume milk. Our Eastern Regional Research Center developed a process, an enzyme process, that would allow people to consume milk without difficulty or without attendant problems. This was picked up by industry and it is just now growing into a major industry to get this material out. There is a package of this that is made available to you. We had a recent communication expressing gratitude for the work that we had done, and for the fact that their industry was growing very rapidly. That research was originally published 13 or 14 years ago. I want to emphasize that our agricultural system is not simplistic, it is a very complex system.

Mr. Chairman, I will stop there. Again, I appreciate the good support we have had from this committee. Thank you.

Senator Cochran. Thank you, Dr. Kinney.

We will hear from Dr. Jordan.

COOPERATIVE STATE RESEARCH SERVICE

Dr. JORDAN. Thank you very much, Mr. Chairman, and members of the subcommittee.

As this subcommittee is well aware, the Cooperative State Research Service provides a linkage between USDA and the university-based agriculture research system of the United States. It provides that linkage to all of the State and territorial agricultural experimental stations, colleges of veterinary medicine, schools of forestry, colleges of 1890 including Tuskegee University, and a number of other institutions on a project-by-project basis. We trace our history, Mr. Chairman, from the Hatch Act of 1887, which built a system of agricultural experiment stations in every State and U.S. territory. For 100 years we have witnessed the harnessing of science for the resolution of real-world problems, providing the scientific basis for the American farmer and rancher to become the envy of the world in agriculture production and utilization. Several of the characteristics of the system that have allowed this to happen include, first of all, the great agricultural learning centers of America and decisionmaking at the State level. It involved the direct input by citizens in the priority-setting process of the State legislatures. It involved mobilizing basic research scientists to work on very practical problems, bringing forth real-world solutions. It involved leveraging funds by providing a requirement to match the Federal dollars which is so far surpassed to make it, in essence, no real issue today.

The rate of scientific impact and its changing effect on agriculture has been most evident during the last quarter century. During that time, as Senator Stennis is fully aware, the McIntire-Stennis program was instituted and research became a very important part of the Colleges of 1890.

The Department has provided you with detailed reports in the explanatory notes on both the Competitive and the Special Research Grants Programs. In addition, you were provided, on a quarterly basis, detailed information about the Competitive Research Grants Program. Fiscal year 1985 was the first year for the expanded Competitive Grants Program with expansion principally in biotechnology, animal science, and pest science. The quality of research proposals in each of these areas was extremely high. We were deluged with proposals for the Competitive Research Grants Program. A total of 2,153 proposals were received.

As Dr. Bentley indicated, we were able to fund about 19½ percent of the proposals, or about 9 percent of the dollars requested. What we did was to trim programs requested for 3-year funding back to 2-year, and reduce budgets even further.

RESEARCH ACCOMPLISHMENTS

We are excited about some of the advances that have resulted from the research programs, and I would like to highlight some of the accomplishments.

One I would like to discuss is a result of biotechnology. There is a disease in cattle called vesicular stomatitis virus disease. It is a very debilitating disease. From these pictures you can see that the cow is bleeding rather profusely from the mouth. The hoof is in desperate shape and the animal cannot stand on it at all. It looks like foot and mouth disease. Two things were needed: First, a way to determine if this was vesicular stomatitis disease or foot and mouth disease; and second, a vaccine was needed which was much more effective against vesicular stomatitis.

Scientists at Washington State University, in conjunction with the Salk Institute, the National Institutes of Health, and the Agricultural Research Service have addressed this issue. Using the monoclonal antibody approach they were able to determine, in the field, if an animal had vesicular stomatitis disease within 6 hours. This was far superior to any diagnostic test available before.

Last week, I received a call from Dr. Yilma, the team leader at Washington State University. He reported that with the help of ARS, they were able to use the same technique to develop a diagnostic test for foot and mouth disease. Using a parallel type of test, they were able to determine if an animal had either of these diseases and what to do about it.

These scientists have opened another door, scientifically, for us. They have developed a technique where they can build a monoclonal antibody without using purified antigens. Using purified antibodies has been a very time-consuming and costly approach, but this technique is very simple. They focus on the DNA side of the effort, and use it as the basis since it is simpler to harvest DNA in purified form than the antigen itself. This would open the way for the use of this technology in developing diagnostic tests and vaccines for other diseases.

Monoclonal antibodies as a biotechnology approach is not limited to animals. It is also very effective in plants. One of the most dramatic examples is the use of the technique to detect the presence and track the changes in the yellow dwarf virus of wheat, a very destructive viral disease worldwide. A similar approach can be used to detect pathologic types of maize dwarf mosaic viruses of corn and to eliminate seedborne viruses in soybeans.

I don't need to comment, I am sure, to any member of this subcommittee about the difficult times that agriculture faced in 1985 and again in 1986. The universities and other parts of the agricultural research system have provided some very meaningful and useful support to meet this crisis, support that has been delivered to the farmer/rancher of America through the Extension Service. One effort has been the publishing of a book entitled "The Organization and Performance of the U.S. Food System." This is the result of a Hatch regional research project, NC-117. It involves scientists from land-grant universities, the Agricultural Research Service, the Economic Research Service, the Agricultural Cooperative Service, the Agricultural Marketing Service, along with the House of Representatives Committee on Small Business, the Federal Trade Commission, the Farm Foundation, and other organizations.

With your permission, Mr. Chairman, I will leave a copy of this with your staff director. If any of the members of the subcommittee would like this reference book, I would be pleased to provide copies.

RESEARCH ON ALTERNATIVE CROPS

The role of USDA has been expanded in other ways, too. The Department, the universities, and the Agricultural Research Service have been examining new and alternative crops and alternative uses of existing crops. An emerging role for plant and forest products is industrial applications which could mean new markets for farm products and domestic sources of raw materials that in the past have been imported. In your package, Mr. Chairman, is a summary of 14 different crops that are currently receiving increased attention. They range from lubricants, paper, and rubber-related items, to plastics. USDA's role in this effort is to provide technical expertise and to build bridges among the production, processing, and market sectors.

BUDGET RECOMMENDATION

The budget recommendation for CSRS for fiscal year 1987 is, as you have indicated Mr. Chairman, $246,356,000. We are fully appreciative of the overwhelming need to reduce spending in the Federal Government, but this budget continues to reflect strong support for the State-Federal partnership in food and agricultural research. It resembles the request for fiscal year 1986 in terms of supporting the base-funded programs related to the Hatch, McIntire-Stennis, and Evans-Allen acts. The figures are all parallel to the actual appropriated levels for fiscal year 1986. The amounts that were sequestered under Gramm-Rudman-Hollings have been restored in fiscal year 1987. In that sense, it reflects a 4.3-percent increase above what actually is available to the universities in the current fiscal year. The funding of these programs has a higher priority because, when combined with State funding, then the basic laboratory facilities, scientists, graduate students, and support necessary for the long-term stability of agricultural research are provided. These programs allow maximum flexibility for decisionmaking at the station level, and at the same time, continue a strong working relationship between the Department and the State Agricultural Experiment Station system.

It is recommended that funding for the 1890 Research Facilities Program be continued at the fiscal year 1986 level. This will provide the fifth year of funding for a 5-year, $50 million grant program to upgrade facilities to these institutions.

Mr. Chairman, I have visited over half of the Colleges of 1890, and I can attest to the fact that the investment of these dollars has been effective in making their research programs competitive.

The Competitive Research Grants Program is also considered a high priority, with fiscal year 1987 funding close to the fiscal year 1986 level.

The program was expanded significantly in 1985, and we believe that this program will encourage traditional as well as new cooperators to conduct fundamental research which will be applicable to the needs of the farmers and ranchers of America.

As a part of the administration's overall spending reduction package, no funding has been recommended for the Special Research Grants Program. These grant programs have concentrated on problems of local, State, and national interest beyond the normal emphasis in the formula programs. We are hopeful, because of flexibility in the other program areas, that the key programs in these areas will be picked up and continued in the base-funded programs.

In fiscal year 1985, the Higher Education Program was transferred to the Cooperative State Research Service. Three higher education programs are conducted: The Morrill-Nelson permanent appropriation which provides $50,000 to every State and Territory; the Strengthening Grants Program to support the resident instruction programs at historically black land-grant institutions; and graduate training grants awarded to colleges and universities to stimulate the development of food and agricultural scientific expertise in targeted national need areas.

The fiscal year 1987 budget proposes funding only for the Strengthening Grants Program at the Colleges of 1890 and Tuskegee University. We hope that the Graduate Student Support Program will be continued under both the formula programs and the Competitive Research Grants Program.

RESEARCH PLANNING

Mr. Chairman, before closing, I need to bring to your attention that the university system of America has really broken new ground in the last calendar year. The experiment station system, in concert with CSRS, sponsored a major symposium in June 1985. The handout package contains the results of that symposium at which they addressed all the major issues facing agriculture today. The symposium was followed in August by a workshop conducted by representatives of the university system in concert with the forestry schools, the home economics schools, the Extension Service, Agricultural Research Service, and the Economic Research Service. More than 650 commodity groups' organizations also participated. The workshop devised a priority-setting process and identified more than 100 high priority research areas for the system to address. These were condensed into 21 targeted areas. The results of that effort will be delivered to you, and to each member of the subcommittee, through the experiment station system. If it hasn't already, Mr. Chairman, it will be delivered shortly.

The important thing to remember is when put alongside the efforts of the Agricultural Research Service and also the efforts of our colleagues in USDA, including Forest Service research programs, the workshop really constitutes the most massive planning effort ever mobilized in support of American agriculture research in our history. As a result of that, it is interesting to note how close the priorities of that effort match those of the Joint Council on Food and Agricultural

Sciences. They come from different perspectives, but they validate one another, Mr. Chairman. It indicates that the university system is a part of that very research organization. In fact, it is a part of the solution, not a part of the problem in American agriculture.

PREPARED STATEMENT

With your permission, Mr. Chairman, I will leave the rest of my remarks for the record. I stand ready to answer any questions.

Senator COCHRAN. We appreciate your statement very much, Dr. Jordan.

[The statement follows:]

STATEMENT OF DR. JOHN PATRICK JORDAN

Mr. Chairman and Members of the Subcommittee: As this Subcommittee is well aware, the Cooperative State Research Service is the agency of the USDA through which federal research funding and coordination are accomplished on behalf of the Department of Agriculture, in cooperation with all of the State and Territorial Agricultural Experiment Stations; the Colleges of 1890, including Tuskegee University; all of the forestry schools; and all of the Colleges of Veterinary Medicine in the United States.

In addition to land-grant universities, there are other universities, not of the land-grant model, which are participants in the system, but we trace our history from the Hatch Act of 1887, establishing Agricultural Experiment Stations across the length and breadth of this nation. During that hundred years of history, we have witnessed the harnessing of science for the resolution of real-world problems in agriculture, food and forest sciences, and provided the technical basis upon which American agriculture became the envy of the world. Several characteristics of the system have been paramount in achieving that goal.

First of all, it involved the great agricultural learning centers in America and decision making at the State level; it involved the direct input in the priority setting process of the State legislators; it involved mobilizing basic research scientists to work on very practical problems, bringing forth real-world solutions; it involved leveraging funds by providing a requirement to match the federal dollars, a requirement which is so far surpassed as to make it a non-issue.

The rate of scientific impact and its changing effect on agriculture has been most evident during the last quarter century. During that time, the McIntire-Stennis program was instituted and research became an important component of the Colleges of 1890.

The Department has provided you with reports in the Explanatory Notes on the results of both the Competitive and the Special Research Grants, in addition to a quarterly report on accomplishments under the Competitive Research Grants program. Fiscal Year 1985 was the first year for the expanded Competitive Grants program with its new dimensions particularly evident in biotechnology, animal science, and pest science. The quality of proposals in all three of these areas was extremely high. We received many more proposals than we were able to fund. In 1985, there were a total of 2,153 proposals requesting $493 million and we could only fund 449 grants for $44 million.

We are certain that only the very best of these proposals survive the peer review process because many of the 350 reviewers used in the process have experience in both the NSF and NIH system and they have found our system to be as competitive as that of any agency of the federal government.

REPORT OF SELECTED SIGNIFICANT ACCOMPLISHMENTS

Mr. Chairman, we are excited about the advances that will be made with the new biotechnologies and I want to share with you the basis for that excitement. As this committee is well aware, vesicular stomatitis is a highly contagious disease of cattle, the symptoms and rapid spread of which are often identical with foot and mouth disease. It is critical for this nation to have a rapid diagnostic test that can be accomplished in the field. Using biotechnology research techniques, scientists at Washington State University have developed such a new diagnostic test that can be used to identify a vesicular stomatitis outbreak under field conditions in less than six hours. Scientists also have developed a new vaccine which provides an immunity for much longer duration than previous vaccines did. This is an important development for the livestock industry of America.

Furthermore, these same scientists have developed a new technology to produce monoclonal antibodies without the use of purified antigens either in the immunization phase or in the screening phase. This is a very significant breakthrough since the separation, purification, and isolation of antigens is extremely difficult and is the major constraint in utilizing monoclonal antibody techniques for the development of specific diagnostic tests, vaccines or therapeutic agents. This could lead to a much more rapid development of new diagnostic tests and vaccines for a variety of infectious diseases which has not been possible because of the inability to develop purified antigens.

One of the most effective technologies to emerge from biotechnology has been that of monoclonal antibodies, which are important in both the plant and animal agricultural industries. Let me quickly summarize for you what is involved.

Monoclonal antibodies are the result of researchers manipulating a process that occurs naturally in all animals -- the process of fighting disease. To produce monoclonal antibodies, researchers infect a mouse with a specific antigen -- it may be a virus, bacterium, parasite or any molecule that causes an animal to make antibodies. The mouse's spleen cells, which produce antibodies to the antigen, are fused with mouse cancer cells in a test tube. The resulting hybrid cell combines the ability of spleen cells to make antibodies with a cancer cell's ability to reproduce indefinitely. Each monoclonal antibody helps a scientist to diagnose disease by recognizing one and only one antigen in an organism (virus, bacterium) which is an asset since organisms contain many antigens.

The same thing can be done in plants, and one of the most dramatic is the use of monoclonal antibodies to detect the presence, and track changes in the yellow dwarf virus of wheat, a destructive virus worldwide. The monoclonal antibodies not only detect the presence of specific virus strains rapidly in varying backgrounds, but can be used in a predictive manner to help control the disease. Similarly, monoclonal antibodies are used to detect pathologic types of the maize dwarf mosaic virus of corn, and eliminate seed borne viruses in soybeans.

As this subcommittee is painfully aware, American agriculture faced a difficult year in 1985 and is facing yet another one this year. Both the Executive and Legislative branches of government have grappled with this very difficult situation and tried to chart the course for the future. The universities and other parts of the agricultural research system have provided some very meaningful and useful support to meet this crisis, support that has been delivered to the farmer/rancher of America through the Extension Service. One effort was the publishing of a book entitled "The Organization and Performance of the U.S. Food System" which addresses several major issues facing American agriculture.

Another area which USDA and the universities have been examining involves new and alternative crops. An emerging role for plant and forest products is industrial applications -- which could mean new markets for farm products and domestic sources of raw materials to replace imports. Fourteen alternative crops are receiving increased attention.

USDA's role in this effort is to provide technical expertise and build bridges among the production, processing and marketing sectors. The private sector must identify the most promising markets, but no one firm has the overall interest in establishing new domestic industries that utilize more U.S. grown farm and forest products.

BUDGET RECOMMENDATION

The budget recommendation for CSRS for FY 1987 is $246,356,000. We are fully appreciative of the overwhelming need to reduce spending in the federal government, but this budget continues to reflect strong support for the State-Federal partnership in food and agricultural research. It resembles the request for FY 1986 in terms of supporting the base funded programs related to the Hatch, McIntire-Stennis, and Evans-Allen Acts. The figures are all parallel to the actual appropriated levels for FY 1986. The funding of these programs has a high priority because when combined with State funding, the basic laboratory facilities, scientists, graduate students, and support necessary for the long-term stability of agricultural research are provided. These programs allow maximum flexibility at the station level to support research of the highest priority and at the same time assure the continued strong working relationship between the USDA and the State Agricultural Experiment Station system.

It is recommended that funding for the 1890 research facilities program be continued at the FY 1986 level. This will provide the fifth year of funding for a five-year $50 million grant program to upgrade facilities at these institutions. It would bring the total to $49,880,000 over the five year period.

The Competitive Research Grants program is also considered high priority with 1987 funding close to the fiscal 1986 level. The program was expanded significantly in 1985 in biotechnology, animal science, and pest science. We believe that this high priority program will encourage traditional, as well as new cooperators to conduct fundamental research which will be applicable to the needs of the farmers and ranchers of America.

As part of the Administration's overall spending reduction package, no funding has been recommended for the Special Research Grants program. These grant programs have concentrated on problems of local, State and national interest beyond the normal emphasis in the formula programs. Due to the discretionary nature of the Hatch Act formula and related base funded programs, amounts allotted to State institutions permit the institutions to fund research in those areas that [illegible] identify as high priority. This flexibility can provide for maintaining the highest priority programs without the need for special earmarked funds.

In fiscal year 1985, the Higher Education program was transferred to the Cooperative State Research Service. Three higher education programs are conducted -- the Morrill-Nelson Permanent Appropriation which provides $50,000 to every State and Territory; Strengthening Grants to support resident instruction programs at historically Black land-grant institutions; and Graduate Training Grants awarded to colleges and universities to stimulate the development of food and agricultural scientific expertise in targeted national need areas.

The fiscal year 1987 budget proposes no funding for the Morrill-Nelson program or for Graduate Training Grants. Support for the development of agricultural expertise will continue to be provided indirectly through the provisions of the Hatch Act formula and related base funded programs and the Competitive Research Grants program. Strengthening Grants are recommended for the Colleges of 1890 and Tuskegee University at the current level.

PLANNING

The system broke new ground in FY 1986, which will have significant impact in FY 1987. As you know, Mr. Chairman, the experiment station system in concert with CSRS, sponsored a major symposium on planning in June 1985. This symposium concentrated on key problem areas needing to be addressed in great detail by the system. The hand-out packet includes a copy of the Proceedings of that conference. That step was followed in August by a workshop designed to give major participants in agricultural research, extension, and teaching, including representatives from 35 of the land-grant universities of America an opportunity to work out details concerning research priorities. More than 650 commodity groups also provided comments on needed action. The workshop condensed more than a hundred high priority needs into 21 targeted areas. Specific objectives and cost analyses were a part of the workshop process. You have been provided with the results of that effort by your State Agricultural Experiment Station Director. Combined with the efforts in recent years by our sister agency, the Agricultural Research Service, it becomes the most massive planning and coordination effort ever undertaken in the history of agricultural research in America. The priorities that emerge are consistent with those identified by the Joint Council on Food and Agricultural Sciences and clearly indicate that the agricultural research system of America is on target in meeting the Nation's food, fiber and fuel needs. It also emphasizes that agricultural research in the university system of America is clearly a part of the solution, not a part of the problem in American agriculture. For this reason the Department and the Administration have put a high priority on maintaining agricultural research.

BIOTECHNOLOGY POLICY

Mr. Chairman, let's now turn our attention to one of the past year's most significant efforts involving agricultural research, extension and teaching. I specifically refer to the issue of forging a national policy for the conduct of biotechnology research. Assistant Secretary Orville Bentley has been a principal in the efforts of the Department of Agriculture with former Assistant Secretary Ray Lett being the other principal. The resulting Department policy, which is being finalized with the Office of Science and Technology Policy, is predicated on four fundamentals:

- It is driven by the best science available.
- It recognizes that there is no fundamental difference between organisms that are genetically engineered and those developed through traditional breeding methods.
- It recognizes the absence of a track record for genetically engineered organisms which can be compared to that of the many years of natural breeding processes and proposes to establish that track record.
- It recognizes that human health and the environment must be safeguarded, but that research needs to progress under the umbrella of reasonable risk.

Based on these principles, the Department's research policy has been developed in concert with the National Science Foundation and the National Institutes of Health and is consistent with the policies of those agencies. Similarly, the regulatory component of the USDA policy is consistent with those of the Environmental Protection Agency and the Food and Drug Administration. Thus, Dr. Bentley and Mr. Lett, as members of the Biotechnology Science Coordinating

Committee under the auspice of the Office of Science and Technology Policy, have worked diligently to assure the safety and efficacy of research in agriculture, as well as to ensure the utility of the results of that research for American farmers and ranchers. The focus of this whole effort, Mr. Chairman, is to reduce input costs and to make American agriculture more competitive on a worldwide basis.

As of March 15, 1986, the U.S. Department of Agriculture using currently available resources has activated the National Biological Impact Assessment Program (NBIAP). Last year I reported to you on the goals of this important operation. The program is vital in assuring the efficacy and safety of biotechnology and of the use of genetic engineering in the agricultural industry of America. NBIAP provides an enormous inventory of talent that can be used to review proposals and protocols within proposals to assure safety and efficacy in biotechnology. It also provides an inventory of test sites that can be used to safely test biotechnologically developed crops, livestock, and related organisms. NBIAP will maintain a registry of biotechnology experiments and monitor materials being tested.

The whole effort, Mr. Chairman, is backed up by two important additions to the responsibilities of the Secretary of Agriculture as outlined in the 1985 Farm Bill. Specifically, the Secretary "shall establish appropriate controls with respect to the development and use of the application of biotechnology to agriculture;" and "coordinate the efforts of States, State cooperative institutions, State extension services, the Joint Council, the Users Advisory Board, and other appropriate institutions in assessing the current status of, and developing a plan for, the effective transfer of new technologies, including biotechnology, to the farming community, with particular emphasis on addressing the unique problems of small- and medium-sized farms in gaining information about those technologies."

Mr. Chairman, this concludes my prepared remarks. I will be pleased to answer any questions.

BIOGRAPHICAL SKETCH

William D. Carlson
Acting Associate Administrator
Office of Grants & Program Systems

Dr. William D. Carlson is the Acting Associate Administrator of the Office of Grants and Program Systems (OGPS) and is Principal Veterinarian in the Cooperative State Research Service (CSRS). Dr. Carlson, on behalf of the Administrator of OGPS, provides administrative leadership to the Competitive Research Grants, Grants Administrative Management and the Higher Education Division of the Department of Agriculture. He provides administrative support for the Joint Council on Food and Agricultural Sciences, the National Agricultural Research and Extension Users Advisory Board and other special programs.

Dr. Carlson received a Doctor of Veterinary Medicine and a Masters of Science from Colorado State University. He received a Ph.D. from the University of Colorado Medical Center in Radiation Biology and Radiology. Dr. Carlson was founder of the Department of Radiology and Radiation Biology at Colorado State University that has enjoyed international recognition for its programs. Dr. Carlson was also president of the Colorado State University Research Foundation. He is an author of a major book in veterinary radiology, editor of a radiation biology book and author of many scientific publications. He served as President of The University of Wyoming for 11 years. At this time he served on many regional and national boards and commissions. He is the receipient of many honors including the "Veterinarian of the Year" for the United States.
Dr. Carlson most recently was honored by being selected as one of the 10 founding members of the Veterinary Medicine Division of the National Academies of Practice.

Dr. Carlson has been with the Department of Agriculture since 1984.

EXTENSION SERVICE

Senator COCHRAN. We will now hear from Dr. Mary Nell Greenwood. We welcome her here again; she is head of the Extension Service.

You may proceed with any comments or remarks you have for us.

Dr. GREENWOOD. Thank you, Mr. Chairman.

I appreciate the opportunity to appear again before you. I have submitted an official statement for the record. I will just highlight the aspects of that statement.

The Cooperative Extension System, with its Federal, State, and local partners and network of advisory councils across this country, addresses national, State, and local concerns. Dr. Jordan was just talking to you about the Cooperative State Research Service, and we, like that agency, are officially affiliated with the land-grant university system across this country.

From my perspective, the system performs several functions which are in the national interest. The first of these is to provide a nationwide system of adapting and transferring science and technology to our Nation's producers, businesses, and communities.

Second, the system anticipates and responds educationally to critical national issues affecting the food and agricultural system.

Third, the system localizes its educational resources to respond to natural disasters and catastrophies. This might be citrus canker in Florida or a flood in Mississippi, but the system does respond.

Fourth, we initiate nationwide targeted educational programs to help implement Federal legislation, Federal programs, and Federal policies.

Last, we contribute to the development of volunteers and leaders across this country who serve their community, the organizations they represent, and the Government.

FARM FINANCIAL ASSISTANCE

I would like to make some comments in terms of accomplishments of this past year. The response to the farm financial crisis is especially noteworthy. While programs were designed and implemented initially in the Midwest, virtually every State in the country now has special initiatives in this area. The survey which we conducted last fall indicated that we had provided intensive assistance to more than 100,000 families, in helping them to develop a farm business and financial plan.

Another 80,000 families were assisted by professionals who were trained by Extension. This assistance entailed helping the family develop cash flow projections, financial statements and plans to address the individual financial situations. Our Extension professionals have been involved not only in helping producers develop these individualized management plans, but also helping families to cope with the unprecedented stress which they faced. We manned hot lines and counseling centers and have been a good listener and counselor in troubled times for these families.

The special allocations in fiscal year 1985 and fiscal year 1986 appropriations by Congress have helped augment these educational efforts.

As Dr. Bentley indicated, and as my colleagues across this country have indicated, we have provided assistance to a large number of families, but at this time, more than double that number are in need of comparable assistance in the coming year.

FISCAL YEAR 1987 BUDGET PROPOSAL

Now, I would like to turn and comment, very briefly, on the 1987 budget proposal. As you know, this prepared budget would reduce Federal expenditures for the Extension system by 60 percent. It is hoped that State and local governments will assume more financial responsibility for supporting those programs which they feel can be of particular value. Under this proposed budget we have the elimination of the Expanded Food and Nutrition Education Program, which is a program designed to provide educational assistance to low-income families.

The proposed budget provides $135 million in general formula funds for 1862 and 1890 institutions, for U.S. territories and for the District of

Columbia. It is expected that these funds would address high priority, national concerns, such as restoration of profitability to American agriculture, improved management of natural resources, including water quality and management, rural development, and in helping our producers understand Federal regulations, policies, and programs. These are among the vital issues facing families and communities across our Nation.

Without question, if the proposal is enacted, the impact on Extension will be significant. Its role, its scope, its outreach will be impacted. The Federal investment, although at a significantly reduced level, is needed to make this system nationwide in scope and responsive to national as well as State and local issues.

PREPARED STATEMENT

Mr. Chairman, this concludes my comments. The Extension system appreciates the interest and guidance from this committee.

I will endeavor to respond to questions you and members of the committee may have.

[The statement follows:]

STATEMENT OF DR. MARY NELL GREENWOOD

Mr. Chairman and members of the Committee, I appreciate the opportunity to discuss with you the proposed FY 1987 President's budget for the Extension Service.

The Cooperative Extension System provides nationwide leadership in adapting and transferring science and technology in agriculture, forestry and nutrition related sciences for this nation's producers, businesses, families and communities. Assessing research and technology from across the nation (whether from the Agricultural Research Service, the Cooperative State Research Service, Forest Service, Economic Research Service, other public and private sources) and throughout the world, Extension tailors appropriate technology to site-specific conditions, maximizing the value of research independent of where it is done. This application and utilization contributes to productivity, economic growth and human expertise development.

The system with its federal, state and local partners and network of national, state, and county advisory councils anticipates and responds to conditions and problems whether national or local in magnitude. The system mobilizes its educational resources to respond to national emergencies, natural disasters, and federal regulations and policies. This system is enhanced by a cadre of volunteers and leaders. A recent study indicates Extension has a network of nearly 2.9 million volunteers who contributed expertise, time and other resources to the planning and implementation of programs. They also become effective leaders for their communities, organizations and government.

The 1987 budget would reduce the Federal Extension budget by roughly 60 percent. The key word here is "Federal." The Federal Government has been contributing approximately one-third of the dollars used for Cooperative Extension Programs. Certainly, we would hope that states and local governments would assume more of the financial responsibility for supporting those programs which they deem to be of value.

It is interesting to note the varying degree to which the states support Extension activities. As an example, the State of California presently expends $4 in state funds for each federal dollar. In 30 states, state support exceeds by more than two-to-one the federal contribution. All states are obligated by law to provide a one-to-one match on formula funds. A reduction of the magnitude we have proposed will present a significant challenge to the Extension system, but I am confident that this system, which has served American agriculture so well, will adjust and continue to fulfill a significant role.

Under this proposed budget, the Extension Service would continue to provide overall coordination and program assistance to state and local cooperators and would provide $135.1 million in general formula programs for 1862 and 1890 institutions, and the District of Columbia. We would, however, support Extension work to address high priority national concerns, such as restoration of profitability to American agriculture, proper management of natural resources and rural development.

We have proposed to eliminate the earmarked programs. The Expanded Food and Nutrition Education Program (EFNEP) is presently utilizing $60.4 million in Federal funds. The program is designed to provide nutrition information to low income families. Other Extension, Federal and State programs are targeted at the general population.

For some Extension programs, the Federal support has consisted of earmarked assistance which the States have used as "seed" money to develop, using additional resources, the program level appropriate to the needs of the clientele. When Congress enacted the Gramm-Rudman-Hollings legislation, USDA assumed a large part of the responsibility for reducing Federal expenditures. Therefore, as in previous proposals, the 1987 budget would eliminate these earmarked programs in favor of the general formula distribution.

Another important area of federal support is in adapting and transferring science and technology to producers, businesses and communities. It is this facet of the Federal role which is emphasized in the 1987 budget. ES, USDA, will continue to provide assistance to the states in defining priorities, identifying and utilizing the latest Federal and State research and coordinating efforts to solve problems of mutual interest. ES will also continue to support and monitor innovative approaches and assist in the transfer of those approaches nationwide.

Federal funding will address high priority concerns such as assistance to farm families and communities in coping with financial stress, water quality and management including groundwater and developing understanding of federal regulations, policies and programs. A recent survey indicates that, during the past two years, nearly 100,000 farm families have received intensive assistance in developing a farm business and financial plan. This assistance entails preparation of cash flow projections, financial statements and a plan of action to address their individual financial situation. This help is vital in deciding whether to remain in farming, to rely on part-time employment to supplement farm income or whether to develop a new career. Other sources of this type of assistance are simply not in place to address the immediate needs for help. Although a large number of families have received this assistance, we estimate that more than twice that number will need this help in the near future.

Water quality and conservation including groundwater is another major issue facing agriculture. Surveys continue to identify groundwater contamination problems, many involving pesticides and fertilizers used in agricultural production. Scientists are just beginning to understand the potential movement of these chemicals through the soil and groundwater aquifers. Crop management practices play a role in the fate of these chemicals, and also can reduce the amounts required, thereby lowering production costs.

Three Federal agencies -- USDA, EPA and the Interior Department -- have research, education and regulatory roles in groundwater conservation. A consistent approach to dealing with this national issue demands Federal involvement to identify and integrate significant outputs from the involved

Federal agencies. Through ongoing education programs, Extension is in a position to gather and disseminate this information in a consistent manner to those most in need.

Extension will continue to play a major role in developing understanding of federal regulations, policies and programs, e.g., the implementation of the new conservation reserve program authorized in the 1985 Agriculture and Food Security Act.

Under the conservation reserve program, farmers with highly erodible cropland can enter into long-term (10-year) land retirement contracts. Sodbuster and swampbuster programs are designed to discourage use of highly erodible land or wetlands by denying farm program benefits to farmers who produce on those lands. Extension Service will assist farmers by providing information on the new conservation reserve program and providing decision aids on the range of available alternatives.

Mr. Chairman, these are some of the vital issues facing the nation's farm families and communities in which Extension must play a major role.

There is no doubt the 1987 budget proposal will force this very unique cooperative system to change -- to refocus and to confront new challenges.

Without question, if this proposal is enacted, the impact on the Extension System will be significant...its role, its scope, its outreach will be impacted. The Federal presence and investment, although at a significantly reduced level, is needed to make this system nationwide in scope and responsive to national as well as state and local issues.

I believe that the system can continue, with certain restraints, to be effective and valuable to the American people in the future as it has been during the past 75 years.

Mr. Chairman, this concludes my statement. I will now endeavor to respond to questions you and members of the committee may have.

IMPACT OF AGRICULTURAL RESEARCH

Senator COCHRAN. Thank you very much for your statement. We appreciate all of you being here this morning and giving us the benefit of your observations about the activities of your agencies and the work that is being done, how it is relevant to some of the problems that are being encountered in production agriculture, colleges and universities, and communities throughout the country.

OFFICE OF TECHNOLOGY ASSESSMENT REPORT

I happened to see a couple of articles recently in the New York Times that have been provocative and interesting to me. They concern the impact from a practical standpoint of agricultural research on production agriculture in the United States. These two articles dealt with the findings of a project conducted by the Office of Technology Assessment, which is an arm of Congress. This study is very new, and I am not sure if it has been very widely disseminated.

I am wondering whether or not, Dr. Bentley, you have had an opportunity to see this, and whether you have had any reaction to it, particularly the observation that the more research we do, the more we change; the more findings we make, the more requirements we impose on the production of agricultural commodities to become bigger and to become more capital intensive. This is resulting in the loss of a lot of jobs in the agriculture sector, and it is inevitably causing small farmers to go out of business.

What is your reaction to those comments? Is it all bad?

Dr. BENTLEY. No; I don't think so. I think we have been through processes of change many times before, and we will have to sort out the impact of developments that are taking place today. I haven't studied the complete report in detail. I have scanned it, and I have read the summary. By and large, we think that the report deals fairly with science and education. It brings into account the facts that research is taking place and that research and technology transfer will be an important item. As you noted this morning, my colleagues referred to the importance of that—that the change in new science technology that we have will likely make an impact on the rate that food and fiber is produced in this country, and how we use our resources in the future. Moreover, it is likely to have an effect all around the world as well, because science moves from one country to another. In fact, other countries have programs addressing some of the same issues.

As to the challenge it makes to this system, and the Federal or State activities including research and extension, it will likely be large.

As to the impact on farm operators, I am not knowledgeable enough to know whether this will follow the scenarios outlined in the OTA report or not. There are a number of factors that will certainly affect the size of farms and movement of capital resources within the food and fiber system. Technology has a potential for making it possible to increase the size of farms, but it also has the potential for being neutral in regard to the size of farms. That is, if one incorporates the results of technological development into a seed—whether for grain or whatever crop there is—that technology can be used by all sizes of farms. If you are planting a seed, be it corn or soybeans, the same size seed will be planted, regardless of the size of the farm; the same technology can be used. However, it may call for different management practices, but that is characteristic of what has happened over time.

I don't know that one can say the technology, per se, is going to be the factor as far as the increase or decrease in the number of farms. Also, there has been an increase in a smaller number of farms that have found special niches in our system.

Senator COCHRAN. I thank you for your observation and your reaction to that.

We have a number of Senators who are here this morning. I appreciate the attention of each Senator to this important hearing. I am going to withhold my other questions until we have had an opportunity to get around and let others ask their questions. Then I will wind up with the questions that I have.

Senator Stennis, I recognize you for any comments or questions you may have.

EXTENSION SERVICE BUDGET REDUCTIONS

Senator STENNIS. I have promises out and dealings on the floor that I am compelled to meet, but there is nothing more important than the issues of this lady and these gentlemen here before the committee. I want to express special interest in it, and I do so as one who was reared on a farm, and I adhered to its purposes all my life. I have had all kinds of contacts with agricultural colleges and contacts with research, all kinds in the field of agriculture, and with the Extension Service at all levels, and have had personal observation of it all my life. We are in a stressing situation here, and I usually vote for the low figure to get the budget back into control. I think I must say what I have done hasn't been a great deal, but I have tried.

I must say before this subcommittee, we are talking today about the 4–H clubs and the home economics clubs, and the rest of the Extension Service. These are human beings that we are dealing with, not some capitalistic will to save some country on the other side of the world. These are human beings, and they are our folks, and we have got to do something about it. This idea about the 59-percent reduction here, in Extension Service funds, I think it is just a mistake. I am not blaming any of you in the business, but we have got to wake ourselves up to see that we put it in proper perspective, and see that these things are given more balanced consideration.

I am not going to ask you whether you set these figures or not. I assume you did not, but you are part of the group; you have to carry part of the load. We are going to ask in a proper way, and see if we can't get this rectified. It is something where I feel like I know the facts, I know the need. This is a relatively small amount of money—considering the extent of it and the good that they do.

I am interested in the Extension Service, and I would like to ask permission, Mr. Chairman, to put a group of questions in the record for a response.

Senator COCHRAN. If there is no objection, I will ask that it be submitted.

Senator ABDNOR. Mr. Chairman, I am going to have to leave, but may I submit some questions for the record?

Senator COCHRAN. You certainly will have that right. I am going to recognize Senators in the order in which they came to the hearing without regard for either side of the aisle. Any Senators who have questions for the record may submit those, and it will be helpful to us.

We appreciate that and we appreciate your being here, Senator Abdnor.

Senator ABDNOR. Thank you.

Senator COCHRAN. Senator Chiles.

Senator CHILES. Mr. Chairman, I simply want unanimous consent to be allowed to ask some questions for the record.

Senator COCHRAN. It is a privilege, and we appreciate your coming by.

CITRUS CANKER

Senator CHILES. Thank you, Mr. Chairman.

I welcome these people testifying before us today.

I know that we are all aware of the serious problem that farmers are facing regarding the outbreak of the present citrus canker. This has threatened the survival of the citrus industry, and therefore is of great concern to all of us. I would like to know about the status of the Emergency Canker Research Program. If you recall, this program is part of the Agricultural Research Service. It was funded for $1 million in 1986. Will this important program continue in fiscal year 1987?

Dr. KINNEY. Yes; it will be continued, Senator Chiles. A substantial portion of those funds went to the University of Florida with the Agricultural Research Service. We are very pleased with the program to date. It is our expectation that we will continue the program as is. The funding for that program is $1,156,000; that will continue.

FOREIGN ANIMAL DISEASE FACILITY

Senator CHILES. I thank you for that.

Last year the committee requested a feasibility study of the status of foreign research efforts involving ARS and American institutions on exotic foreign animal diseases. I understand this study is complete and they are supportive of such a program. Is that correct?

Dr. KINNEY. Yes, it is, Senator Chiles.

Senator CHILES. I understand the study recognized the need for additional facilities to conduct this foreign research, and the estimate needed by the university is approximately $2.5 million. Is that correct?

Dr. KINNEY. It is my understanding that a figure of $2.5 million has been used as an estimate for additional facilities. We do not have estimates on specific facility needs nor costs.

Senator CHILES. Would you provide the committee with a detailed description of what you think they need? And while I am sure the intention is to draw the expertise of any number from American institutions, are there particular U.S. institutions that have established relationships with the university in this important area?

Dr. KINNEY. Yes, Senator; I can provide those for the record if that will please you.

[The information follows:]

There are a number of cooperative programs aimed at keeping abreast of certain foreign animal diseases and doing research on diagnostic and control methods at several overseas locations. These are carried out through a variety of funding mechanisms and involve several universities including the University of Florida. While we do not have a detailed description of the additional facilities Hebrew University would need for this type of research, a cooperative program would require appropriate biocontainment facilities for research, teaching, and training programs in selected animal diseases. Such facilities are costly to construct.

TROPICAL-SUBTROPICAL RESEARCH

Senator CHILES. I have a few other questions that I would like for you to provide for the record. I would like to ask another question, and the rest of mine can be submitted for the record.

This has to do with subtropical research, section 406. I would like to relate to some of the research being done because of this program in particular.

Dr. JORDAN. There were 88 grants awarded in fiscal year 1985, 25 to Florida, 34 to Hawaii, 15 to Puerto Rico, 9 to Guam, 4 to the Virgin Islands, and 1 to Louisiana. The areas covered include crop and animal productivity and protection, post-harvest philosophy of crops, and land and water resources needed for agriculture productivity.

Senator CHILES. How do you evaluate the effectiveness of section 406 tropical research programs?

Dr. JORDAN. It is well organized, well planned, and well executed, Senator.

Senator CHILES. Were you aware that the University of Florida has utilized this program to do some good, basic canker research over the year? Therefore, I am sure you can understand my surprise over the proposed elimination of this program.

Dr. JORDAN. It is in a grouping of programs, Senator, the Special Research Grants Program, which have all been proposed for elimination. It is a matter of priorities of the base-funded programs and the Competitive Research Grants programs being programs with the greatest flexibility. We would hope that this important work would be picked up in base-funded programs, Senator.

Senator CHILES. Should the program be retained in fiscal year 1987? Do you anticipate continuing to utilize the Caribbean and Pacific-based advisory group as its sources of felicitation and recommendation and distribution of section 406?

Dr. JORDAN. That proved to be a very effective mechanism, and that will be the mechanism we will choose.

Senator CHILES. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you very much, Mr. Chiles.

Senator COCHRAN. Senator Kasten?

REDUCTION IN EXTENSION SERVICE BUDGET

Senator KASTEN. Thank you, Mr. Chairman.

I have a brief statement and a few questions that I have to submit for the record, Mr. Chairman.

Sections of the USDA fiscal 1987 budget we are examining today are encouraging in some respects, and discouraging in others. I am pleased that the administration has reaffirmed its commitment to the strong Federal program of basic agricultural research through the Agricultural Research Service.

Agriculture is going through tough times now, but it will have a future so long as people eat in this country. For agricultural research to benefit farmers, it has got to be brought to the farmer. That is what the Extension Service is for, Mr. Chairman. That is why I am opposed to the administration's proposing a cut to Extension by over 60 percent. This proposal would cost Wisconsin over $4 million if it were enacted, and would have similar impact all across the country. One statistic illustrates why Wisconsin is a national leader in Extension: While in most States each dollar spent in Extension brings forth $2 in State and local spending, Wisconsin matches $7 million of Federal Extension spending with about $23 million of State and local funding. I am supportive of reductions in Federal spending to balance the budget and savings, but Extension need not be one of them. Therefore, I oppose the administration's budget proposal in this area.

Dr. Greenwood, I appreciate your candor here today. I hope this committee will do what we have done in the past, and that is to restore Extension funding. I am surprised to see that the administration is proposing so much less for Extension than it did in 1986. This is less than half of what the administration requested last year. I would like to ask you about this.

I talked about this match in Wisconsin. You have got a $7 million Federal contribution, matched by Wisconsin's $23 million in State and local funding. These Federal dollars are really seed money for local participation. I don't know enough about other States, but I know that an awful lot of volunteers are associated with this program, to go beyond this $23 million. You are nodding, you agree with me?

[Referring to Dr. Greenwood.]

My question to you is: Are other States like Wisconsin in which we have a Federal contribution and a much larger State contribution over and above that? It is not a 2-to-1 match in Wisconsin. It is 3 to 1; $7 million in Wisconsin getting $23 million over and above that. Are we unique, or are other States also heavily involved in volunteer-related activities, that don't count here?

Dr. GREENWOOD. Yes; all States are involved in volunteer activity. We supported a study conducted by the University of Wisconsin, and that indicated there are approximately 2.9 million people who volunteered for the participation in helping to conduct programs. The value of this volunteer effort is estimated to be about five times the public investment—Federal, State, and local.

Senator KASTEN. Five times?

Dr. GREENWOOD. Yes, sir.

Senator KASTEN. So we are going from $3 to $1 to maybe $5 to $1?

Dr. GREENWOOD. You are talking about the match of States and the leverage that Federal dollars create, in terms of the general formula funds. But States are required to match formula funds on a 1-to-1 basis. Currently, California puts in $4 for every $1 of Federal funds. The lowest State, in these terms is Rhode Island. Federal funds account in that State for about 60 percent of the total Extension funding. Federal funding accounts, in this fiscal year, for 31 percent of the total public money in the Extension system.

Senator KASTEN. To me, this particular set of facts make Extension's case even stronger. What we are saying is that we have got many dollars coming from States over and above that private participation. We ought to be aware that the slashing of Federal Extension funding would cut back on our ability to get these State dollars. Without question, this would cut back on the ability to encourage the kind of volunteers in the private sector that you are referring to.

I want to make one other point. One of the things that the Extension Service has been able to work with in Wisconsin is the whole area of financial management. We are faced with a tremendous financial crisis on the farms now. The fact that farmers have been able to get technical assistance in education programs, particularly computer programs, is helping farmers help themselves. If we take and cut away the tools the Extension Service is providing for us, I think that rather than coming to Extension to help farmers help themselves, we may be over at the FmHA to worry about clothes and other things.

I look forward to working with you and other members of the committee. I know the chairman in the past has been very supportive. We are hopeful that we are going to be able to reorder the priorities, and we will be able to do a better job with Extension.

NEW DAIRY PRODUCTS

Dr. Kinney, I was delighted to see the ARS proposal, proposing $1.5 million in developing new dairy products. You made some brief comments in your remarks. It is my understanding that you plan to focus on ways to make milk and dairy products more suitable in export marketing, particularly in South America. Would you just outline, exactly, how you would go about doing this? And more particularly, what your timetable is; and is this something we can be looking for soon?

Dr. KINNEY. Senator Kasten, unfortunately the dairy surplus problem has been around for some time, and I expect there is going to be some time before we solve it. There are many different approaches. One is new products allowing people to consume more of the dairy products—milk, cheese, and so forth. Another is to find industrial uses for milk—nonfood uses. All of this requires a highly complex research situation. We have some ideas for the approaches we are taking in this research, and I would like to submit those for the record because they are highly technical. I am not sure that I can relate them here that easily. The answer is: It is going to be a long-term problem because milk is a surplus commodity throughout the world, but we think there is some research for all answers.

[The information follows:]

RESEARCH ON NEW USES OF DAIRY PRODUCTS

The specific areas of emphasis for fiscal year 1987 will be dependent on results of meetings to be held with representatives of the dairy and food processing industries. One area for increased research is the development of research information and technology needed for production of low lactose dairy products.

The presence of lactose in dairy products is a major deterrent to export sales. Hydrolysis of lactose by lactase yields sugars which readily contribute to browning reactions, and one, galactose, has negative health connotations. One objective is a process wherein lactose hydrolysis is accomplished after heat treatment is complete. This would allow the marketing of high quality ultra high temperature [UHT] concentrates which have low lactose content. This could yield a new market in a relatively short time.

A second objective is a commercially feasible means of removing lactose or galactose from milk. It appears that lectins can be used, but a continuous process which recovers and reuses the lectins is required, or a process for producing the lectins cheaply, possibly by genetic engineering techniques.

A third objective is the conversion of the galactose resulting from hydrolysis into more desirable carbohydrates and their derivatives by chemical or biochemical techniques. The result will be new export markets and an expansion of the use of dairy products in lactose-intolerant groups in the United States. If the second objective is achieved, the lactose recovered would be available in abundance and relative purity for utilization.

Senator KASTEN. Mr. Kinney, we look forward to working with you; I thank you for your initiative.

I have some other questions that I would like to submit for the record.

Senator COCHRAN. Thank you, Senator. We thank you for being here, for your contribution to this hearing, and for your work with the committee.

Senator Andrews.

EXTENSION SERVICE REDUCTION IMPACT

Senator ANDREWS. Thank you, Mr. Chairman.

It is good to be here this morning to address the proposed budget of USDA for fiscal 1987.

The Extension Service, the Agricultural Research Service, and the Cooperative State Research Service are not new programs. They have been around for a long time. As a matter of fact, Mr. Chairman, the Cooperative Extension Service goes back to 1914, before you and I were even born, and they were fighting things like boll weevils in those days. We don't have boll weevils in North Dakota; 40 degrees below zero eliminates the riffraff. We don't need that kind of research, all you have to do is send the boll weevils up to North Dakota and we will take care of them. But seriously, the great success of Extension programs is based on the fact that the various governments have met their responsibilities in this area. It has always been a partnership program with the State and farmers' groups working with the Federal Government. It has been an investment program as well, Mr. Chairman, and that is the thing that bothers me. This 60-percent cut in Extension Service means that we are not going to get the information out to the farms, out to the homes that we are putting together in our research centers. Somehow or another there is somebody who wants to be frugal and tight with a Federal dollar—and I do, but that doesn't make any sense at all. If we don't send to the individual American the information on nutrition, how are they going to know how to really take care of the needs of their diet? I heard on the radio a week ago some group saying that olive oil is fantastically good for you. If you use it in your cooking you are going to reduce your chances of having a heart attack because of the portion of acid. I happen to know that our Experiment Station, our Agricultural Research Center, has determined that sunflower oil is much better for you than olive oil. Isn't that true, doctor?

Dr. KINNEY. Yes, sir.

Senator ANDREWS. Now, doesn't it make more sense—an American product that is even better for nutrition than this foreign product? Yet what this administration proposes, cuts off not only the arms but also the legs and makes you nothing but a hulk as far as telling the American people what is good for them, and sharing with them the information. Doesn't this, doctor, give you just a little bit of frustration?

Dr. KINNEY. Yes, sir.

Senator ANDREWS. How do you propose to counteract it? This isn't just the farmers' stuff. This is the American stuff. We know, in fact, it took us a long time to do this. We have been spending, way back in the 1920's, more money on taking care of pig nutrition than taking care of human nutrition. Now suddenly, we are paying attention to human nutrition, and now they come down the line and say we can't share that information with the American people. How crazy can you get? Did you request this kind of a cut?

Dr. GREENWOOD. No; I did not request it.

Senator ANDREWS. I didn't think you did. Do you think this kind of a cut is cost effective; this will save money?

Dr. GREENWOOD. It is anticipated that State and local governments will assume an increased responsibility. Also, in the area of nutrition, there are some Federal and State programs that can contribute to the dissemination of research funding.

Senator ANDREWS. That is true, but can you find any that is as cost effective as the Extension Service?

Dr. GREENWOOD. You are asking a biased witness.

Senator ANDREWS. I am asking the only witness I have got in front of me today.

Dr. GREENWOOD. It is possible when you consider it in terms of a Federal investment, and as Senator Kasten was mentioning, volunteer time that has helped in the education of consumers and the general public.

Senator ANDREWS. And also, don't you think that it is going to be dollar effective to the Federal Government if we improve the health of the American people——

Dr. GREENWOOD. Yes, sir.

Senator ANDREWS [continuing]. By investing a dollar? What we are doing in this committee is trying to put together the information that we can take to the floor and use to convince our colleagues on both sides of the political aisle in the floor debate to overturn this totally wrong-headed approach that you bring with you in the name of the Office of Management and Budget. We determined that you didn't initiate it but they did; they don't understand "sic'em" from "come here," about principle things. What we are trying to do now is develop some kind of record here from those of you who have devoted your full life to research, to Extension Service and to just the general good things that make this country work.

Doctor, I would like to have your comments on this, too.

NUTRITION AND DIET

Dr. BENTLEY. Senator Andrews, I would like to comment about some aspects of it. It would be rather imprudent for me to get into too many discussions on the——

Senator ANDREWS. I know you have got to support this OMB decision, but you don't have to with your whole heart.

Dr. BENTLEY [continuing].—on that diet and health issue. I think there has been some progress made here in the last few years. When we talk about priorities for Extension education programs, and for our research activities, the matter of diet and health is an important component part of the recommendation. I speak on that with some pride because in the last few years our research planning activities have identified that as a priority area for the reasons that you have just mentioned. It not only has implications for health but it has a very important implication for the dietary habits and trends of the American people.

As we look ahead, I think farmers will want to respond as they now are responding, in a way that is consistent with dietary recommendations. The second part of that is within the Department of Agriculture. Nutrition is an important program activity, and we are spending a lot of time working with people that conduct human nutrition research. We are working with HHS and NIH and are talking not only about dietary recommendations, but also coordination of research to look at some of the very same questions that you have referred to. At the same time we are sensitive to the need to encourage, through both the public and private sector, good nutrition education and getting information to the users. That is the effort we have here.

The cost effectiveness and support of the Extension programs and Cooperative Research programs has been a very important part of the success of our activities in education and in research in the food and agricultural areas. I agree with you on that.

TRANSFER OF TECHNOLOGY

Senator ANDREWS. Dr. Bentley, I appreciate that strong statement of support. Let me point out that in the years that I have been on committees funding the Department of Agriculture, I would like to say that I could be broad-minded enough to realize that this research should go to the ultimate consumer as well as to the producing farmers. Without those consumers, those of us who are farmers are, indeed and in fact, lost. I was concerned years ago about the fact we knew more about pig nutrition than about people nutrition. But I think I had something to do with putting those human nutrition laboratories in Grand Forks, ND, first. We have got three good institutions now and they are working with the NIH, and we are getting the kind of information and we are finding out what kind of beef—incidentally, the type of beef that we have determined is better for human health is the kind that doesn't have that wasteful part and isn't excessively marbled and, quite candidly, costs the farmer less to produce. We have got that data and we can use it to answer the wrong-headed statements that have come from other sources that somehow or another beef is bad for us. Isn't that essentially true?

Dr. BENTLEY. You are right. It seems to me in the nutrition area, and I know it is dangerous to make generalizations, that information is based on short-term observation and can crowd out sound information very easily.

Senator ANDREWS. The sound information that we have invested in and your group has put together is about the fact that beef is nutritious for you, about the fact that sunflower oil is better than any other cooking oil, about the fact that you should eat some bran in your diet, and about the fact that you should sharply lower your cholesterol. We have all this information on hand, don't we?

Dr. BENTLEY. Yes, sir.

Senator ANDREWS. But now you are disarming us by the fact that you are taking our ability away from us to disseminate that information as you said in your own words, "to crowd out the phony information"—the faddism that is all too prevalent in today's world. Is that not true also?

PROGRAM PRIORITIES

Dr. BENTLEY. Yes; there is a problem. It comes with the priorities. As Dr. Greenwood said, we hope these programs can be maintained as far as Extension education is concerned. There is a need to examine priorities that have been set. There may be need for changes and we hope we can make the best decisions we can. If I may add to the comment you made, I think one of the encouraging things in the diet and health area is the active involvement of commodity organizations to look at these issues so that there is a public/private discussion on this. As a good example in the red-meat area, we have a study going to really assess and place into a modern context the contribution of red meat to the American diet. There are general contributions in addition to protein, concerning the vitamins and energy nutrients that are important components in the diet. The study is being done with support from the Department of Agriculture and from the Department of HHS. Additionally, the private sector is putting funds together to help us carry out this study, which is led by Dave Call from Cornell University. He has a background in food science, food technology and nutrition and was director of Extension programs at New York for several years. This is a very excellent committee and they are looking at the issues. I bring it up, not just to report about the committee activities, but also to stress that this is an outgrowth discussion with the livestock people about health issues.

Senator ANDREWS. As you may or may not know, I also sat on that HHS subcommittee, and we got into a great deal of dialog on this same issue of nutrition and the dissemination of that kind of information to the public at large.

PLANT GERMPLASM RESEARCH

I have one last question on production agriculture, Mr. Chairman. It has been a concern of mine for many years. I would like to ask Dr. Kinney what progress has been made on germplasm. A decade or more ago we had corn crops—probably the basic feed crop in this country—ravaged by a disease, because the germplasm that was in the corn fibers at that time was all from a common source. There was a common susceptibility dropping yields by 30 to 35 percent. This gets to the point of the germplasm evaluation, enhancement, storage, and minimum collection that you are trying to put together so that the breeders of corn, wheat, barley, and other grains in this country have a mixed bag of germplasm to operate from.

How is that coming along? We have been at that for several years, and I have been disturbed by the fact that I am told that if we increased the funds you are asking for in that category by 50 percent it is still going to take us 10 years to complete that project. Are my figures wrong?

Dr. KINNEY. It may be an underestimate, Senator Andrews. To evaluate the germplasm that we have stored and which is of potential value to American rural agriculture, is going to be a very long, tedious process. One way to explain it is to look at the barley yellow dwarf disease that we solved after many years of research. We solved it genetically by finding germplasm that could be incorporated into barley varieties to make it resistant.

Senator ANDREWS. As a barley grower, I can tell you how much yellow dwarf cost me 20 years ago.

Dr. KINNEY. I appreciate that, and I am not a grower. We have the same sort of problem with barley—we solved the old problem, but we have the same problem in other species—that is one example. If we are going to utilize the germplasm we have stored, then we are going to have to get on with the business of evaluating. Up until now—I don't say it by way of apology but by way of explanation—we have been concentrating for many, many years on collecting and preserving the plasm and now it is past time to get on with finding out what we have really got.

Senator ANDREWS. In other words, you think you have done a pretty good job of collecting but the evaluation has not even begun?

Dr. KINNEY. Exactly. We have got stored something on the order of half a million different species of seed.

Senator ANDREWS. If another yellow dwarf or if another foreign disease manifested itself, you don't have that germplasm identified well enough to be able to crank into the seed industry, or into the individual experiment station the kind of information that would cut that kind of devastation short?

Dr. KINNEY. We have that ability, but it is limited by the fact that we don't have catalogues of what's in the germplasm. We have got some work to do.

Senator ANDREWS. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

Senator Bumpers.

Senator BUMPERS. Mr. Chairman, I will be brief.

My primary concern and reason for being here this morning is the Extension Service.

EXTENSION SERVICE REDUCTIONS

In your statement you say, "A reduction of the magnitude we have proposed will present a significant challenge to the Extension system, but I am confident that this system which has served American agriculture so well will adjust and continue to fulfill a significant role." And Dr. Bentley, you say, "We are confident that the Extension system will survive with the support of State and local governments." You go ahead to say that, "Extension has been a major factor in assisting farm families with financial concern—100,000 families have received assistance within the past 2 years. Estimates indicate that more than twice this number need this type of assistance." How would you propose to cut the budget by 60 percent and serve twice as many people as you serve?

Dr. BENTLEY. This is one of the programs that we are called upon to make priority allocation of resources to and which many States have already redirected resources to work with farm families in financial distress. Several States have eliminated certain programs and put additional people and resources on this program. In other States they have made special appropriations for this purpose. We think other major programs utilizing the Federal resources can be continued within this budget recommendation. Every State will have to make adjustments according to approved funding, obviously. We hope that the system—we are confident that the system is so well established that it will continue, but at a different level of activity. Of course, there could be increased funding from the States to offset the Federal reduction.

Senator BUMPERS. We are taking away revenue sharing, we are going to take away State and local science committees, we are cutting back on Medicaid funds for the States. I won't go through the list but there must be 20 things that mean survival to State and local government that are being eliminated. Here is another one where you say, Ms. Greenwood, "I am confident that this system which has served American agriculture so well will adjust and continue to fulfill a significant role." How is it going to do that with cuts of 60 percent?

I am not going to badger you about earmarked programs. That is really not what I mean.

Dr. GREENWOOD. I think this system will continue. It will have reduced activities and reduced programs, and it would be a very difficult challenge for the State Extension services and their advisory people to ascertain those programs to be continued. In some cases, there would be some States that would have a capacity to pick up some programs, and, I think, for others it would be very difficult.

ELIMINATION OF EXTENSION

Senator BUMPERS. If you burdened the States with this "some will and some won't" attitude, it really is going to be a hit-or-miss proposition. The programs that you say have been successful, will be partly successful and partly a failure, indeed. My point is, and I am speaking for my State, I know what the rest of this budget does to the State of Arkansas. I don't see how they can pick up the deficiency that they are going to experience if we cut these Extension Service funds by the amount that you are proposing. Why, if the program is as successful as everybody says it has been, are we asking whether or not it should be continued? Is it a budgetary question? If it is a budgetary question, why a 60-percent cut for the Extension Service? Some cuts might be in order; I am not going to sit here and try to defend every dime—the $350 million we spent in 1985 and 1986. There is nobody in the USDA or the Extension Service who believes for a moment that this 60-percent cut won't lead to the elimination of the Extension Service.

Dr. BENTLEY. I hope it won't lead to the elimination of the Extension Service. There will have to be some adjustments in programs the budget supports. However, we hope the priorities are those that relate to production agriculture and providing information to farmers. There is some difference of opinion as to how expansive a coverage Extension should have. That has been a long-time discussion and one that we talked about a great deal with farmers and various people. Some feel the State Extension programs should be limited more to service to farmers and not as much to the other activities—worthwhile as they are, and people recognize them to be.

I would hope that would be the kind of adjustment that would take place.

I think we also know that the time of these adjustments is a difficult one, and that is why I think we start off by saying we did make some difficult choices in recommendations through the budgetary process. I don't think I can add more to it than that. I would say that in one comparison, with the research as we read the general statements from OMB, the choice of priorities was placed on a continuation of research, because it is essential to the competitive position of our industry and competitive position of science on a global basis. It was hoped that some service and program activities could be reduced, and more taken up by the States; thus, reducing the Federal obligation.

Senator BUMPERS. Dr. Bentley, Dr. Greenwood, let me make two observations. If my State put money in matching programs where we got the biggest return—in other words, if the Government had given us $5 for every $1 we invested in one program, and in another gave us $1 for $1, we would put what resources we could in the $5 program. Now, here today, the States put in $2 average nationwide, for every Federal dollar we put into the system, is that not correct?

Dr. BENTLEY. That is correct.

Senator BUMPERS. If you cut that 60 percent, is there any doubt in your mind that the States aren't going to cut back essentially the same way, even the States which could afford to do better? If I were Governor of my State, I would certainly be looking very closely—I would look at the politics of it too, because home Extension Service is must stock. I might also say that this is one you all are going to lose, in my opinion.

Dr. BENTLEY. I can't speak for what each State is going to do. I think that there would have to be a need to look at priorities within States, and people would have to evaluate their resources. I would think in some States there will be a reduction commensurate within the program—commensurate in the Federal funding.

Senator BUMPERS. Isn't one of the biggest benefits of this program the volunteer program?

Dr. BENTLEY. And very important.

Senator BUMPERS. Dr. Greenwood, in your testimony you said we had to have 2.9 million volunteers and an Extension network?

Dr. GREENWOOD. Yes, sir.

Senator BUMPERS. In 1973, Betty Bumpers vaccinated every child in the State of Arkansas through a very inexpensive program by taking advantage of agencies who were available and just weren't called upon. One of the chief ones was the Extension Service. We immunized 300,000 children in one Saturday. She came up here and did the same thing nationwide because the Extension Service and the National Guard and State health departments helped out. She thinks when she dies she is going to the Extension Service.

Why do we torpedo programs that have accumulated 2.9 million volunteers? That is free expertise that we are getting.

Dr. GREENWOOD. Yes, sir; it is.

SMALL FARM FACILITY

Senator BUMPERS. One other thing I want to know about, and, Dr. Kinney, you are my target on this one.

In 1985, we appropriated $450,000 for the construction of an administration and laboratory building for a plant materials center at the Small Farm Research Center in Booneville. Are you familiar with that?

Dr. KINNEY. Yes, sir.

Senator BUMPERS. There is another cooperative effort, with the USDA, Agricultural Research Service, Soil Conservation Service, Arkansas Association of Conservation Districts, Soil and Water Conservation Commission of Arkansas, and the University of Arkansas, College of Agriculture and the Arkansas Agricultural Experiment Station, all involved in support of projects at that particular location.

What I want to know is: What is the status of the money for that construction, and when can we expect construction to begin?

Dr. KINNEY. I don't know the time of completion but I do know it is right on schedule, Senator.

Mr. VICTOR. Construction is projected to be awarded in the third quarter of this year.

Senator BUMPERS. That is all I need to know.

SPECIAL RESEARCH GRANTS

Senator COCHRAN. Thank you very much, Senator.

Let me say at this point that my sentiments about the Extension Service are very similar to those expressed by Senator Bumpers, Senator Stennis, Senator Andrews, and Senator Kasten who have all expressed support for the activities of the Extension Service. I think it is one of the best Federal programs and activities that we have, and it would be a very unfortunate development if the Congress fails to provide adequate funding for the continuation of these activities for the next fiscal year.

In the area of Special Grants, I am also concerned that the administration is simply saying to the Congress, "If we decide what kind of research activity to conduct, then we request funding for it. If the Congress decides what specific research projects are to be conducted by the Federal Government, we request no funding for it." That is an interesting situation. That is what we have here; let's be honest about it. The administration has sent a budget up here for agricultural research saying if Congress identifies areas of research, then no funding is requested for that. In effect, Congress adds money and takes the heat for doing it. The administration is saying, "If we decide where the research is physically being done—the ARS' facilities and the Department of Agriculture's own facilities—and we decide what is to be done, then we will increase the funding for it," which is what has been requested.

I suppose the increase is designed to take up the slack. If the Congress provides no funding for Special Grants—which, of course, is not going to happen, there will be some funding for Special Grants—

then the addition of funds for the Agricultural Research Service is designed to take up the slack. I wonder, in that connection, Dr. Bentley, has there been a review of Special Research Grants to determine what research activity would be continued by the Department of Agriculture and which ones would not be continued if no funding is made available for Special Grants?

Dr. BENTLEY. I would like Dr. Jordan to answer your question.

Dr. JORDAN. Senator, there are a number of these that are exceedingly high priority. In fact, if you remember, in fiscal year 1985 the administration recommended $15,482,000 in Special Research Grants. These are those program areas that have an enormous national impact, including pesticide impact assessment, the IR-4 Program that involves pesticide clearance and minor use of animal drugs, and also the animal health, the germplasm resources, tropical/subtropical agriculture, and acid precipitation. These special research grant categories were recommended in the fiscal year 1985 budget request.

I think if things were different in terms of the total budget, Senator, you would find that the administration is still in support of these programs. An alternative question might be, What are you going to do if some of these are not funded through the Special Research Grant arena? Certainly those programs associated with pesticide clearance and minor use of animal drugs are of such a high priority, and are related to the IR-4 program that probably, with the assistance and support of the directors, a larger off-the-top funding of Hatch money would go to these kinds of programs. You can't cover them all that way, sir, but that's the way we would approach some of them.

AQUACULTURE AND WOOD UTILIZATION

Senator COCHRAN. I was wondering about aquaculture research now being done in Mississippi, some of which is done at an ARS facility, and aquaculture general research, which this committee recommended last year be funded at a $518,000 level. Another special grant which I'm interested in is wood utilization research, which is a $3 million item. Those are areas of special interest to me because I am familiar with the work that is being done in Mississippi in wood utilization and at Stoneville in aquaculture. This aquaculture is beginning to be a very important economic activity in the Southeast, and it is taking the place of some unprofitable agriculture activity, and is making a big contribution in permitting our State to recover from the economic recession that hit production agriculture.

The same thing is true for wood utilization research. We are talking about jobs, we are talking about a better use of land that is highly erodable, using it to plant trees. I wonder about these activities, whether or not there is enough money in the ARS budget, and whether there is disposition in the ARS to do this kind of research.

Dr. KINNEY. Mr. Chairman, we are going to do our job with the funds that we have, but we don't have the funds or resources to pick up on other programs.

RURAL DEVELOPMENT CENTERS

Senator COCHRAN. I am also interested in another special research project that we described in the committee report last year, and it was in the Extension Service section under the Rural Development Centers. These centers are designed, as I understand it, to be of some assistance to those who are out there in the rural areas to try to help identify alternative uses of lands and farming activities. We doubled the amount of money in our committee last year available for these centers. In conference, that was reduced to $750,000. But nevertheless, I will read here—the committee said:

> The committee is aware of an example of such an alternative in Mississippi where a promising industry is being explored for the muscadine, a berry native to the Southern region and well suited to the soils of that region. Given the estimated economic potential of the muscadine industry, the Southern Rural Development Centers should allocate appropriate resources to assist the full development of this activity.

I have heard of no activity at the Southern Rural Development Centers that would convince me that any work at all is being done to try to assist, with research, the development of this economically attractive alternative to some of the traditional farming activity. I wonder if we could have someone look into that? We simply suggested that this might be an appropriate use of the additional money that was put in the account for this fiscal year. If it is not being used for what we suggested it be used for, I would like to know what it is being used for. This is a very attractive opportunity, in my State, for some farmers who have marginal land and are unable to make it productive from an economic standpoint, but they might be able to do so with this type of development of the use of our land.

There has been some research done. There is under construction right now, a plant that would process these berries. There has been testing of the products. Juices that have been taste tested in several markets have received a tremendous amount of public approval, and it is very encouraging. We think there is a potential for that industry in our State. That is probably true in other parts of the Southeast which are particularly hard hit right now.

We need to find other things for these farmers to do with their land so they can use it economically. Pine trees are good, and catfish farming is turning into a big, big industry. We need to be sure that our research dollars are going where the potential is, from an economic standpoint, to a wise use of our land. These farming practices are also consistent with the environmental concerns. I think we ought not to overlook what may be treasures to go to the biotechnology and esoteric activities, which I am not criticizing as long as you don't overlook some of the basic roles for agriculture. We still need to know how to kill bugs effectively and efficiently. I just wanted to stress that.

Dr. JORDAN. Senator, we would be more than pleased to make a complete report to you. I might bring to your attention the red folder handout. It identifies 14 alternative crops. Many places where these crops can be raised are in your part of the United States of America.

Included is a map which shows where these are; things like that could be addressed. What you say makes a lot of sense in terms of Departmental priorities. We will check on this specific question.

[The information follows:]

MUSCADINE INDUSTRY

The Southern Regional Rural Development Center will establish a task force "to identify, develop, and promote new and innovative cost-efficient economic alternatives to enhance farm profitability: that is, alternative income-generating opportunities, impacts of production and marketing, alternative cropping systems, and opportunities for and the role of off-farm income." It is our understanding that the community economic benefits from a muscadine industry is to be an important consideration in this effort.

The Southern Rural Development Center was allocated $172,250 in fiscal year 1986 from the Extension Service. The amount to address the muscadine industry in Mississippi is yet to be determined.

UTILITIES COST INCREASE IMPACT ON RESEARCH

Senator COCHRAN. Thank you very much.

There is a concern in my State where the increased cost of electricity has had an impact on the availability of dollars at the Federal research facility. There is concern about whether this is going to take funds away from research priorities. I know you don't have any answers to that, but I simply pass that on to you. We are getting some expressions of concern as to whether that is to be considered by the administrators. Are you taking that into account when you are allocating funds for research projects? You are telling them to do the same things they did last year and not take into account that the overhead has doubled. I just pass that on as a matter of very serious concern.

Dr. KINNEY. Mr. Chairman, we are very much aware of it, and it is being considered. It is one of the problems we had in maintaining a balance between overhead costs and money available for research, and we don't intend to starve our researchers. We get to a point, in a major facility, where we have to look at reducing the research effort somewhere in order to cover costs like that. We do that as an absolute last resort.

4-H CLUBS

Senator COCHRAN. One of my favorite things is the 4-H clubs, and I know that some are worried around the country that with cutbacks in the Extension Service that 4-H clubs are to be disbanded or eliminated. I understand that we don't have to decide at this committee how much money to allocate to 4-H clubs. What happens is the funds are allocated to the States, and decisions are made at the State level as to how much money goes to that activity. Is that correct, Dr. Greenwood?

Dr. GREENWOOD. That is correct. The States' plans of work are subject to approval by the U.S. Department of Agriculture, but the major determination of priorities occurs at the State level.

Senator COCHRAN. This week I had the opportunity to meet with the volunteer awarded recognition from Mississippi, and many States have representatives here in this building today. They had a reception for those fine volunteers, and lots of emphasis had to be placed on those who volunteered their time to assist local clubs with their projects, and assist their students and members of the club with their work. I don't think we can overstate their importance, and that importance is going to be continued and magnified. I hope we can continue at the Department level to encourage the formation, and sanction, and work of the 4–H club. I am convinced they do a wonderful job in our rural community and are a great training ground of the young men and women of America.

Thank you so much for being here. We appreciate your cooperation and your patience.

Dr. BENTLEY. Mr. Chairman, may I say thank you for allowing us to appear. There is one introduction that I didn't make. Mike Hoback is here from my office and has been very helpful to the staff, and we appreciate your staff and their cooperation dealing with some difficult times.

SUBMITTED QUESTIONS

Senator COCHRAN. Thank you. I have some additional questions for each of you which I will submit for the record. The other Senators also have additional questions. Please respond to these questions as soon as possible.

[The following questions were not asked at the hearing but were submitted for response for the record:]

AGRICULTURAL RESEARCH SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

COMMODITY CONVERSION

Question: Dr. Kinney, I'm pleased to see that additional emphasis is finally being placed on efforts to develop new food and more non-food uses for (surplus) agricultural commodities. I can assure you of this Committee's support of your efforts in this regard.

Can you give us more specific information on the kinds of research efforts your scientists will be doing?

Answer: Development of new uses for agricultural commodities is focused primarily on the opportunities inherent in the use of the new biotechnologies to compete in the industrial products arena with petroleum, to devise the means to reduce those agricultural products imported in significant quantity, and to increase exports. Selected examples of these approaches are:

- Genetic engineering of the soybean to produce lauric acid is a long-term technically viable approach. Lauric acid is a major ingredient used by detergent, soap, pharmaceutical, and cosmetic industries. Imports of lauric acid sources--coconut and palm kernel oils--exceeded 200 million dollars in 1983.

- Development of lactose free milk products that can be concentrated into shelf-stable products requiring no refrigeration and into cholesterol-free butter oil through bioconversion are two examples of unique products that could penetrate and open new export markets.

- Well over 35 billion pounds of feedstock chemicals are produced annually from petroleum. Oxychemicals--e.g., alkene oxides for plastics--alone at the 25 billion pound level if produced at a 75 percent bioconversion rate from starch would utilize 13 to 15 percent of the corn crop.

- New nonwoven products from cotton including industrial and consumer "waste wipes" or towel products, disposable and protective garments, and home furnishings represent a new market opportunity for cotton. Elimination of technical barriers should permit cotton to assume a significant portion of the rapidly expanding 1.5 billion pound annual market.

Question: Will this effort be limited to ARS scientists, or will you be seeking input from land-grant institutions, industry, etc.?

Answer: This effort will principally be conducted within ARS. Collaborative research efforts with land-grant institutions will be developed as needed and appropriate to attainment of objectives. Inputs from industry in the form of research needs and opportunities will be actively sought.

PRODUCTION RESEARCH

Question: There have been some questions raised as to the wisdom of increasing research on agricultural production when we are facing massive surpluses.

What percentage of the ARS budget would you say is apportioned to research which has as its purpose increased production?

Answer: Research aimed at reducing production costs through increased productivity of crop plants and animal products utilizes about 55% of the ARS budget. This level of investment is justified on the basis that research can help create the economic environment necessary for farmers to realize a profit. Currently, the problems of overproduction, high costs of production, and declining exports of major commodities have caused lower returns to investment for significant numbers of farmers, the businesses that supply and finance them, and the rural commitments which depend on farming as major sources of income. Research can result in the development of new methods and technologies for production practices to help reduce production costs. Research also enhances the competitive position of U.S. agricultural products in international markets; increases domestic and foreign demand by developing new products and new uses for existing products; and protects the environment by developing new technology to replace environmentally hazardous technology.

PLANT vs ANIMAL PRODUCTIVITY

Question: The ARS budget proposes an $11.8 million increase (6 percent) in plant productivity, and only $3.9 million (4 percent) in animal productivity. The budget for plant productivity was already over twice as much as animal productivity.

In CSRS, the budget proposes an increase in plant science competitive grants by 13 percent while only a 4.6 percent increase is proposed for animal science.

Why is the emphasis so much greater on plant agriculture than on animal agriculture?

Answer: The ARS budget proposes a $3.5 million increase in plant productivity to fund additional research in plant germplasm acquisition, maintenance, evaluation and enhancement. Germplasm research is vital to assure a wide diversity of genetic material for use by plant breeders and genetic engineers in developing crop varieties with improved quality yield and pest and disease resistance. This area of work is urgently in need of strengthening at this time.

RESEARCH ASSOCIATE PROGRAM

Question: The USDA "Budget Summary" states that the proposed funding levels for ARS permit ARS "to continue a program to hire outstanding young scientists to strengthen agency talent in the latest technologies."

Could you explain how that program is being conducted?

Answer: The Postdoctoral Research Associate Program provides an opportunity for recent recipients of the doctoral degree to perform research and receive advanced training in association with our permanent professional staff. The positions are intended for persons with no more than 2 to 3 years postdoctoral experience. The Associate devotes full time effort entirely to research and advanced training.

The Associate appointment is a temporary appointment to ARS made under a special excepted appointing authority we obtained from the Office of Personnel Management. We publicize the Research Associate positions in several scientific publications, at professional society meetings and mail notices to over 2000 addresses, including all the major colleges and universities in the United States. Applicants submit their applications directly to the selecting supervisor. Since the excepted appointing authority requires no competition, the supervisor may select a Research Associate as soon as he/she finds the appropriate candidate. Publication of research results obtained during the period of the Associateship is strongly encouraged.

Question: Has that program been successful?

Answer: This program has been extremely successful. Prior to obtaining the special excepted appointing authority from the Office of Personnel Management, ARS had established and attempted to fill a number of temporary positions targeted towards developing postdoctoral type opportunities. ARS and the applicants experienced much frustration due to the lengthy and cumbersome civil service appointment process. Since obtaining the excepted appointing authority we have an aggressive recruitment program that is increasing the flow of ideas and talent into ARS that we believe will influence the agricultural sciences in the United States for decades. Because of our success with this program, we have requested, and received approval from the Office of Personnel Management to raise the original numerical appointment limitation from 25 in 1984, to 100 in 1985, until finally in January 1986, all numerical limitations were removed by OPM.

AGRICULTURAL RESEARCH

Question: According to statistics compiled by the National Science Foundation, Federal funding for research in the agriculture, natural resources and environment area have declined from 4.6 percent to 2.9 percent of total Federal research funding in the past five years. (In non-defense research, it has dropped from 12.3 percent to 10.6 percent since 1983).

Is there reason for us to be concerned about these statistics?

Answer: It is important for the subcommittee to be aware of the statistics and trends of Federal support for all research and development activities. The absolute levels of Federal funding for agricultural research have actually increased somewhat over the past 5 years, but the percentage has declined because of higher rates of increase in other areas such as defense, human health, space, and basic non-agricultural sciences.

Question: In a time of rapidly advancing scientific expertise in Europe and Asia, are we keeping pace? Is USDA's research budget sufficient to compete with this growing expertise?

Answer: The U.S. continues to be the international leader in agricultural research, including attention to and application of advances in fundamental areas of biotechnology, physical sciences, and computer technology. Without question, scientists in some other countries are increasing their level of research in these areas and making important advances. USDA's research budget is adequate to compete and keep pace with these international activities, but requires that we change the emphasis of some of our research approaches.

GERMPLASM

Question: Last November, a suit was filed claiming that the Department had violated the law and damaged the environment by not taking proper care of the seed varieties under its control, and not storing a great enough variety of the world's plants.

What is the status of that suit?

Answer: The suit was withdrawn by the filing party and thus the Department never received service of the complaint.

Question: How did you respond to those charges?

Answer: The Department is proceeding with the preparation of an Environmental Assessment of the germplasm program.

WOOD UTILIZATION RESEARCH

Question: In the Cooperative State Research Service, we have funded a Special Grant for "wood utilization research" which focuses on, among other things, improved harvesting methods so that more of the timber itself can be used, and also on various ways of utilizing wood products themselves.

In what ways is ARS focusing on product harvest and utilization?

Answer: ARS does no research on wood. Wood research, including product harvest and utilization, is the province of the Forest Service.

MUSCADINES

Question: Is ARS doing any research on muscadines, a berry native to the South?

Answer: ARS has no research on muscadine grapes.

STONEVILLE, MISSISSIPPI

Question: Last fall, the research facilities in my state (the ARS facility is at Stoneville) were faced with cutbacks in State funds as well as the sequestered Federal funds. One of the major concerns was that the rising overhead costs were siphoning funds away from research priorities, thereby making it difficult to absorb these budget cuts. I imagine this is not uncommon in other States.

How do you propose to deal with rising overhead costs at ARS facilities? Will research priorities be rearranged, will salaries be reduced, will staffs be reduced, or will some other action be taken?

Answer: The problems of increased utility and other local overhead costs at the Stoneville, Mississippi, research facility are common to many of the ARS laboratories throughout the country. These increases are a real cost of conducting research and must be met with existing agency resources. ARS is striving to increase the efficiency of all management and research activities and thereby reduce costs. Routinely, all research programs are evaluated to keep available resources directed toward the essential and highest priority research activities. On a case by case basis changes might be made in some research projects and in the deployment of funding and personnel resources. We do not expect the 4.3 percent sequestation of Federal funding to require any staffing reductions or research priority changes in 1986.

BEE RESEARCH

Question: Is the Madison, Wisconsin, bee lab to be closed? If so, why?

Answer: Yes, this program change is being implemented in order to achieve overall research and management efficiency in our bee research efforts and to focus resources on other bee research that will meet high priority needs. Interchanges with bee industry representatives have established the need to accelerate research on the important national problems of Africanized bees, parasitic mites, and pollination and management strategies. Our sister department agency APHIS has also identified these problems as among the highest priority needs and has requested ARS assistance. The ARS bee research laboratories at Baton Rouge, LA, Weslaco, TX, and Tucson, AZ, will accelerate research activities in these designated areas. The total ARS bee research program will be strengthened as a result.

Question: Will there now be any bee research in the Northern part of the country?

Answer: The Department of Entomology at Wisconsin will retain an active honey bee research program dealing with honey bee-crop-pesticide interactions through 1990 in cooperation with ARS. Additional bee research in the Northern U.S. is presently being conducted at the University of Minnesota, St. Paul, MN; the Ohio

State University, Columbus, OH; the Cornell University, Ithaca, NY; the University of Montana, Missoula, MT; and the Michigan State University, East Lansing, MI. Also, bee research is being conducted in Canada at the following locations: Simon Fraser University, Burnaby, British Columbia; Agriculture Canada Research Station, Beaverlodge, Alberta; the University of Manitoba, Winnipeg, Manitoba; and the University of Guelph, Guelph, Ontario.

Question: Does there not need to be research on how bees react to colder climates?

Answer: Differences in ecosystems exist across the country and varies even within particular States. Research on the interaction with bees and their environment, such as temperature, are certainly one of the experimental factors considered by researchers at their respective locations. ARS bee research is designed to develop national principles for the bee industry and, as the need arises to develop data unique to a particular area, ARS looks to cooperative State efforts to develop specific needs for their respective areas.

POTATO RESEARCH

Question: Please list the locations and funding levels for potato research under ARS programs, including the specific research emphasis, if any, in each location.

Answer: Planned funding and research emphasis of ARS potato research is as follows:

Location	Research	Appropriation Level Planned Funds FY 86	Appropriation Level Planned Funds FY 87
Albany, CA	Improved processing technology, effect of production practices on nutritive quality	$89,900	$93,900
Davis, CA	Biology & control of diseases	7,600	8,000
Tifton, GA	Screening germplasm for pest resistance and adaptability	72,300	75,500
Aberdeen, ID	Breeding for resistance to pests, environmental stress factors, increased nutritive value, adaptation, and yield	297,100	310,500
Orono, ME	Biology & control of disease pests, irrigation, production systems	236,600	247,200
Beltsville, MD	Breeding for improved varieties, genetics, protoplast fusion and other gene transfer systems, cellular interactions of pathogen-host associations	931,100	1,122,900
East Grand Forks, MN	Storage technology, monitoring of potato quality during storage, characteristics of quality for fresh and processing markets	392,800	410,500
Ithaca, NY	Biology & control of nematodes	259,200	270,800

Location	Research	Appropriation Level Planned Funds FY 86	 FY 87
Wooster, OH	Biology & control of potato insects	69,800	72,900
Wyndmoor, PA	Food processing technology, biochemistry of host-pathogen interactions	965,300	1,008,700
Yakima, WA	Ecology, behavior, and control of potato insects	376,000	392,900
Prosser, WA	Gene enhancement, germplasm evaluation, variety improvement, genetic studies on virus resistance, disease research	725,100	757,700
Madison, WI	Germplasm collection and preservation, germplasm evaluation, cytogenetics, gene transfer systems	675,300	705,600
		$5,098,100	$5,477,100

PURPOSE OF FUNDS RECEIVED BY ARS

Question: What research is carried out with funds transferred from APHIS? From FSIS?

Answer: ARS conducts research and provides services to the Animal and Plant Health Inspection Service for monitoring the effects of malathion bait spray, pseudorabies, pathogenesis and transfer of tuberculosis in bison, susceptibility of bison to infection with brucella, bark and ambrosia beetles, Citrus Whitefly, barberry testing, biocontrol - alfalfa weevil, EAP counseling, space rental and other services. Research and services provided the Food Safety and Inspection Service are for carrying out a portion of the Total Residue Avoidance Program, EAP counseling, space rental and other services.

Question: For what purpose are funds transferred from the National Agricultural Library? CSRS?

Answer: Funds received through reimburseable agreement from the National Agricultural Library are for administrative management functions such as procurement, personnel, accounting and other related services.

Funds received from the Cooperative State Research Service are primarily for competitive research grants awarded to ARS scientists.

Question: In general, what services does ARS perform for other (non-USDA) government agencies?

Answer: The Agricultural Research Service provides research and services for several non-USDA government agencies. These activities encompass soil and water research, solar drying of crops, satellite remote sensing, plant productivity research, chemical control of aquatic weeds, animal productivity research, human nutrition research, research on pest repellents, testing of clothing, space rental and other miscellaneous services.

These activities are for non-USDA government agencies such as the Department of Commerce, Department of Energy, Department of Health and Human Resources, Department of Interior, Department of Defense, Department of Justice, Department of State, National Science Foundation, Environmental Protection Agency, Consumer Products Safety Commission, and the General Services Administration.

TRAVEL BUDGET

Question: Most agencies of government are reducing their travel budgets. The cost of travel has also declined. Why, then, are you proposing an increase? What is the primary purpose of travel by ARS employees?

Answer: Travel funds currently budgeted are based on program and management needs. Agricultural Research Service has and will continue to be prudent and seek methods to curtail travel expenses. Estimated travel costs for FY 1987 and FY 1985 are comparable to total funds and employment available in these years.

In order for ARS to effectively carry out its mission, it is essential that ARS actively participate in meetings held at various locations throughout the nation and abroad. Travel is essential for program scientific reviews; international exchange; attendance at scientific conferences; symposia as well as training activities. This is in addition to normal costs incurred for the conduct of research, such as travel to field plots and cooperative meetings with universities and colleges.

LANDS AND STRUCTURES

Question: For what will the $19.7 million under "Lands and Structures" be used? Why is it reduced so drastically from last year's level?

Answer: Estimated obligations in the "Lands and Structures" Object Classification are authorized and funded through the Agency's Buildings and Facilities appropriation as well as the mainhead Agricultural Research Service program appropriation. The Buildings and Facilities funds provide for specific planning and construction projects authorized by the Congress and remain available on a nonrecurring basis for obligation and expenditure until completion of the construction project. The amount estimated in FY 1987 includes $5.7 million from FY 1986 authorizations, $3.1 million from FY 1985 authorizations, and $4.5 million estimated from funds appropriated prior to FY 1985. The remaining funds are for costs associated with repair and maintenance of existing facilities, alteration and modification of facilities, addition to buildings, retrofit, nonstructural improvements, and fixed equipment under existing limitations and authorities within the ARS appropriation. The decrease in obligations from the 1986 level is attributed to nonrecurring expenses against specific projects authorized by Congress at a level higher than estimated for 1987.

TEMPORARY EMPLOYMENT

Question: Please explain in more detail why you are requesting the change in bill language from "field" to "temporary" employment.

Answer: The change was requested because the word "field" could convey the wrong meaning to persons of concern. "Field employment" was misleading in that persons could view this as meaning "below headquarters" or as meaning "people who only work in field facilities".

This line of thought would not be in harmony with actual citation of the Organic Act of 1944, Section 706(a), P.L. 425 (7 U.S.C. 2225) which says..."The Department of Agriculture may employ persons or organizations on a temporary basis by contract or otherwise; provided, that no expenditures for such temporary employment shall be made unless provision is made therefor in the applicable appropriation and the cost thereof is not in excess of limitations prescribed therein."

The change to the word "temporary" will give ARS greater latitude in satisfying temporary intermittent manpower needs at all levels of the organization through purchase orders and contracts. Also, the change will bring our appropriation language in line with 7 U.S.C. 2225 -- which refers to "temporary," not "field."

MARKETING RESEARCH

Question: How much is spent on marketing research? Generally, what kind of marketing research is done?

Answer: The annual expenditure on marketing research in ARS is about 40 million dollars. This research includes development of commodities--fruit, vegetable, field crops, animal products--with improved quality characteristics and acceptability, quality maintenance research in storing and marketing of commodities, improvement of grades and standards, and where it is deemed appropriate and necessary, cooperative efforts with State research units and land-grant colleges will be developed to assure rapid and successful attainment of the research objectives.

TRANSFER TO THE OFFICE OF ASSISTANT SECRETARY

Question: The budget proposes to delete appropriations language regarding the transfer of funds to the Office of the Assistant Secretary for the scientific review of international issues involving agricultural chemicals and food additives.

What action has been taken in response to this FY 1986 language?

Answer: ARS has allocated $200,000 for this project. A United States/Japan High Level Scientific Commission is being organized to facilitate international scientific consultations on commodity export and agricultural chemical residue issues.

U.S. representatives to the Commission include policy officials from the Department of Agriculture, Food and Drug Administration and the Environmental Protection Agency. Japanese counterparts are expected to be appointed soon so that an initial session of the Commission can be held this summer.

Question: Does ARS plan to transfer these funds again, or are you proposing deletion because of policy reason?

Answer: Funds will be made available to finance the completion of this work even if it goes into 1987. Specific transfer authority is not required to carry out this program activity.

MINORITY AFFAIRS TRANSFER

Question: Why was Minority Affairs transferred to the Office of Advocacy and Enterprise?

Answer: Secretary of Agriculture Memorandum No. 1020-20 dated March 15, 1985, established the Office of Advocacy and Enterprise, which combined the Office of Equal Opportunity, and the Small and Disadvantaged Business Utilization, and transferred functions from the Office of Grants and Program Systems for the Minority Research and Teaching Programs.

The purpose of the transfer and merging of this function was to further departmental participation in research and teaching programs. It is also the intent to strengthen program effectiveness and operations efficiency.

COMMODITY EXPORTS RESEARCH

Question: What kind of research does ARS do in the area of reducing losses and removing barriers to commodity exports?

Answer: ARS is developing quarantine treatment methods acceptable to importing states and countries. Emphasis is on alternatives to ethylene dibromide (EDB) fumigation. Current treatment methods include use of methyl bromide, cold and heat treatments, modified atmospheres, radiation, mechanical removal of infested fruits, combinations of the above, and system approaches. For some species, especially fruit flies, we are also developing new or improved eradication technologies that would eliminate need for treatment. Finally, we are also developing a pest-free concept where commodities grown in a specified area will be protected from infestation, subsequently, eliminating need for treatment.

HUMAN NUTRITION

Question: The Children's Nutrition Research Center at Baylor College of Medicine is presently under construction and will be occupied in the summer of 1987.

What is currently in the budget for this Center for fiscal year 1987?

Answer: The President's budget for FY 1987 has $4,106,100 available for the Children's Nutrition Research Center.

Question: What is the projected cost of the move into the new facility? Is money included in the budget for this?

Answer: The estimation of the cost of the move has not been completed, but it is expected that the cost will be approximately $500,000. No funds are included in the FY 1987 budget for the move, as it is anticipated that only a small portion of the building will be ready for occupancy before October 1, 1987. Most of the moving costs are expected in FY 1988.

CONSTRUCTION PROJECT REPROGRAMMING

Question: The explanatory notes show that a number of reprogrammings have occurred in conjunction with your construction projects.

Was Congress notified of these reprogrammings prior to the release of this justification material?

Answer: Congress was appropriately notified of these reprogrammings.

Question: Please provide the details and explanation of these reprogrammings for the record.

Answer: The following reprogrammings/redirections were made:

Funding reprogrammings/redirections in question:

1977	$294,000	(Plum Island Animal Disease Center, Greenport, Long Island)
1977	700,000	(Plum Island Animal Disease Center, Greenport, Long Island
1978	900,000	(Plum Island Animal Disease Center, Greenport, Long Island)
1980	2,187,000	(Human Nutrition Research Center for The Aged - Boston, Massachusetts)
1982	1,490,748	(Human Nutrition Research Center for The Aged - Boston, Massachusetts)

The first redirection of funds in 1977 ($294,000) was required in order to allow the Agency to award the original contract for construction of the laboratory additions. This award was in the amount of $10,049,000.

The second redirection of funds came as a result of surplus, appropriated funds ($700,000) from a project in Kearneysville, West Virginia, being made available for redirection to the Plum Island Animal Disease Center construction. The additional funds provided the Agency with the funds necessary ($640,000) to modify the contract to add the work for the Diagnostic Research Laboratory and to provide a small contingency fund ($60,000) for the project.

The third redirection of funds in 1978 ($900,000) provided additional contingency money to cover the cost of change orders, modification, claims, etc., for the project. This redirection was the result of an Agency study which determined that the $60,000 contingency fund provided in the second redirection of funds was inadequate for a project of this size, location, and complexity.

The fourth redirection of funds in 1980 ($2,187,000) was added to the 1979 construction appropriation fund ($21,100,000) to cover inflation and escalation costs.

The fifth redirection of funds in 1982 ($1,490,748) was added to the 1979 construction appropriation fund ($21,100,000) to cover cost of laboratory equipment and furniture (casework, fumehoods, etc.).

FRESNO, CALIFORNIA LAND PURCHASE

Question: What is the status of the Fresno, California land purchase and the relocation of that research facility?

Answer: At the request of the Congress, an appraisal of 29.55 acres of land, adjoining the 20 acres owned by ARS, was conducted which concluded that the market value of the property, as of April 22, 1985, was estimated to be approximately $450,000. The Congress was notified on June 14, 1985, of the appraisal report findings.

Programmatically, ARS is not opposed to acquisition. However, funds to acquire the land have not been appropriated and no Agency resources are available. In view of program priorities and budget constraints, ARS has no plans to purchase the Fresno property and is not considering relocation.

CLONAL REPOSITORIES

Question: What is the status of the national clonal germplasm repository for citrus?

Answer: The National Clonal Germplasm Repository for Citrus will consist of two facilities; one in Leesburg, Florida and the other in Riverside, California. Construction of the Florida facility is underway and is to be completed in June 1986. Planning and design for the California facility is to be completed in May 1986, after which time construction will be initiated, with completion projected in August 1987.

Question: Please list the location and purpose of each germplasm repository.

Answer: The location and purpose of each germplasm repository is as follows:

Location of Clonal Repository	Purpose of Repository
Davis, CA	Fig Grape Kiwi Olive Pistachio Nut Stone Fruits Walnut
Riverside/Brawley, CA	Citrus and related genera Dates
Leesburg, FL	Citrus
Miami, FL/Mayaguez, PR	Avocado Banana Brazilnut Coffee Jujube Mango Plantain
Hilo, HA	Guava Papaya Passion Fruit Pineapple
Geneva, NY	Apple and American Grapes and Hybrids
Corvallis, OR	Blackberry Cranberry Currant Gooseberry Hazelnut Hops Mint Pear and related genera Raspberry Strawberry
Brownwood, TX	Pecan and Hickory

EMERGENCY CITRUS CANKER RESEARCH

Question: For the past two years, Congress has funded an emergency citrus canker research program at the University of Florida and the ARS facility in Orlando. What progress has been made in that program? Is a method of prevention and/or quick detection in the forseeable future?

Answer: Progress has been made on the biology of the bacterial pathogen, how it spreads, the range of crops it can infect, methods to detect it on trees and on fruit in marketing channels, and on evaluating chemicals for control of the disease in groves. These research findings have contributed to the recent establishment of a more liberal regulatory policy that has resulted in fewer trees destroyed upon new discoveries of the disease.

Question: Does the budget for 1987 include funds for that program?

Answer: Yes. The planned funding for citrus canker in FY 1987 is $1,560,000.

VEGETABLE OIL AS FUEL

Question: What progress has been made in the research at Moscow, Idaho in the use of vegetable oils as a replacement for diesel fuel?

Answer: Performance tests have proven that diesel engines can be operated on a 50-50 blend of rapeseed oil and diesel fuel for 2400 hours without failure attributable to rapeseed oil. A small-scale oil extraction system suitable for on-farm use was assembled, automated, and evaluated at Moscow, Idaho. The vegetable oil produced by the system can be used directly in diesel fuel blends or processed further to produce methyl esters. Through plant breeding and evaluation, the Bridger and Cascade varieties of rape were developed and identified as having superior properties for use as a diesel substitute. New varieties of rape with comparable diesel properties and suited for use as a winter cover crop have been developed and are under agronomic evaluation for yield and oil properties at Moscow, Idaho, and Tifton, Georgia. The double crop potential of rape may provide start-up impetus for a winter rape industry which would provide a cost-effective diesel fuel resource during times of emergency need.

QUESTIONS SUBMITTED BY SENATOR MCCLURE

ALTERATIONS OF BELTSVILLE FACILITIES

Question: I find it interesting that the Agricultural Research Service's (ARS) resistance to the Aberdeen Facility has continued. It seems to me, Dr. Kinney, that given the need for the facility and the availability of funding, you would continue to resist this obviously needed facility. Given your previously stated opposition to this facility, would you please explain what use will be made of the increase in funding for alterations for facilities at Beltsville, Maryland.

Answer: There is no increase in funding, but we are requesting increased authority to cover projected inflation costs of construction labor and material plus the costs of contracting out for related Architectural-Engineering (A-E) and construction inspection services for projects at Beltsville. Additionally, the age of the facilities at Beltsville makes it expensive to alter and renovate buildings to produce the necessary state-of-the-art research space. The increase is not for any specifically identified project.

Question: Will any of this additional funding be used for upgrading of Germplasm Facilities at Beltsville?

Answer: None of the additional authorization will be used for that purpose.

Question: What will be the operating and maintenance expense for the Germplasm Facility in Beltsville?

Answer: The total operations and maintenance costs are projected to be $379,323.

Question: Also explain why this increase in the cost limitations was specifically for Beltsville? Do other research facilities not need this type of an increase?

Answer: The increase in the cost limitation for Beltsville is necessary due to (1) the age and various complex types of facilities and (2) the extremely large number of facilities at Beltsville. This makes it necessary to have the authority available to alter facilities as needs arise, due to the time required to request special authority through the appropriation process. We do need special authority to provide for facility needs for all locations. However, other research facilities in the Agricultural Research Service (ARS) do not need this type of an increase on a location dedicated basis. The annual ARS appropriation provides general authority to alter facilities in amounts of 10 percent of the current replacement value of the building or $169,000, whichever is greater. Considering the number and types of other ARS facilities, this general alteration authority is sufficient.

ABERDEEN, IDAHO

Question: I am happy to see that the funding request for germplasm evaluation has been increased from $2,693,000 to

$4,193,000. It is important to broaden the germplasm resources to ensure maximum genetic diversity for improved productivity. Given this emphasis on germplasm enhancement, it seems clear that ARS would want a new germplasm facility such as the one proposed for Aberdeen. Expanded capacity in the program will call for expanded capacity for storage. As was stated in your budget request, it is necessary to acquire, maintain, evaluate, and make readily accessible to plant breeders and other scientists as wide as possible a range of genetic germplasm. A modern germplasm facility in Aberdeen would enhance this increased emphasis on germplasm evaluation.

I have further questions for Dr. Kinney which I will list below for his review and response at a later time.

Please update the current status of the Aberdeen facility.

Answer: The National Small Grains Germplasm Research Facility to be located in Aberdeen, Idaho, is in the project development stage. An Agricultural-Engineering (A-E) firm has been selected to plan and design this facility. This firm is Cline, Small, Hamill, Quintieri, Associates, of Boise, Idaho. An A-E contract for design will be awarded in the third quarter of Fiscal Year 1986. Design completion is projected for the second quarter of Fiscal Year 1987. Construction contract award is projected for the third quarter of Fiscal Year 1987 with construction completion projected for the fourth quarter of Fiscal Year 1988.

Question: What is the status of the interpretation of the conference language restricting duplication of facilities at Beltsville?

Answer: As previously stated, action toward construction of the Aberdeen facility is continuing. There does seem to be some discrepancy in the Congressional directives to the Agency, but it is hoped that prior to occupancy readiness of the Aberdeen facility Congressional intent will be clarified and coordinated.

Question: Please list for my reference the number of personnel, amount and type of equipment and other resources used, owned or leased by the Germplasm Facility in Aberdeen. Please include the value of personnel, equipment, and other resources not directly related to the operation of the Germplasm Facility but necessary for its continued operation in Beltsville.

Answer: At Aberdeen, there are 6 ARS staff and support personnel, 2 ARS structures - a metal storage building and a modular office-laboratory building. There are 107 equipment items at the location; the inventory value is $253,176.

This equipment includes 8 farm tractors, 7 light trucks and sedans, 1 combine, 10 threshers of various types, laboratory equipment, and office machines.

We have no leased equipment at the location.

TRI-STATE BREEDING PROGRAM FOR POTATO VARIETAL DEVELOPMENT

Question: I would like to turn to another issue of great importance to Idaho, the tri-state breeding program for potato varietal development. Two months ago, my staff requested by phone a complete financial program justification for the program listing the appropriations and expenditures relating to this program. To date this information had not been received. Could you please provide this information specifying all uses of funds appropriated and spent under this program? Please be specific as to amount given to overhead and where it was spent.

Answer: The following information was provided to your office. In FY 85, $238,000 was appropriated by Congress especially for a tri-state potato breeding program. These funds were assigned to the ARS program at Prosser, Washington, for potato germplasm evaluation, gene enhancement, and introduction of new germplasm and varieties for commercial use. A research geneticist has been hired. In FY 86, Congress appropriated an additional $150,000 for this program. This will be equally divided among Washington, Oregon, and Idaho, for cooperative research on breeding improved varieties. As with other appropriated funds, $38,800 or 10 percent of the appropriation will be used for program and administrative management support.

Question: How much was allocated to the universities in the tri-state region through the pass through provisions used in 1985?

Answer: A total of $78,000 was allocated to State universities in the tri-state regions for cooperative potato research in FY 85.

Question: Please account for the additional $150,000 which this subcommittee provided in the FY 86 Appropriations Bill.

Answer: The additional $150,000 appropriated for potato breeding research in FY 86 has been equally divided among Washington, Oregon, and Idaho, and will be used for cooperative research.

Question: Please include information updating the status of the hiring of a geneticist at the Prosser, Washington, facility.

Answer: A geneticist is scheduled to report for duty on June 2, 1986.

DARK END IN POTATOES

Question: In addition to the normal potato varietal development research which is ongoing, another problem has arisen, that of dark end in potatoes. It appears that the Pacific Northwest will need additional funds for research on this problem. Research facilities are available at the Aberdeen, Idaho, station but additional funding is necessary. What is ARS's position on providing additional funds for additional research on this problem?

Answer: The dark end problem in potatoes was particularly bad in the Pacific Northwest this last year. Our scientists in the Northwest working on developing improved varieties are already screening for resistance to this physiological problem. We will encourage the State scientists in the Pacific Northwest to use some of the new funds made available for cooperative research on potatoes for this problem.

POTATO RESEARCH

Question: Please provide a break-down by State of ARS resources expended for potato research in the continental United States. Include budget justification, personnel, FTE's, locations, and major areas of research.

Answer: We have research on potatoes at 13 locations with emphasis in the following areas. Genetics and cytogenetics; evaluation of exotic potato germplasm for important horticultural characteristics; breeding for disease and insect resistance, increased yields, nutritional quality, and consumer acceptance; germplasm preservation and maintenance; protoplast fusion and other genetic engineering techniques for transfer of genetic material; genetic variation in plants from tissue culture; physiology of plant growth and use of bioregulating compounds; effect of plant stress on growth, yield, and nutritional quality of potatoes; prediction of potato quality in bulk storage facilities; physical properties associated with quality of processed potatoes; food processing; nature of host plant resistance to major diseases and other pests; biology and control of golden and root-knot nematodes; biological control and integrated pest management of potato insects, diseases, and nematodes; and identification and control of disease and insect pests. The estimated level of funding and scientist years (SY) for fiscal year 1986 by location is shown in the following table (includes agency indirect costs):

Location	1986 Estimate	SY
Albany, CA	$89,900	0.7
Davis, CA	7,600	0.1
Tifton, GA	72,300	0.7
Aberdeen, ID	297,100	2.0
Orono, ME	236,600	2.0
Beltsville, MD	931,100	7.1
East Grand Forks, MN	392,800	4.0
Ithaca, NY	259,200	1.3
Wooster, OH	69,800	0.4
Wyndmoor, PA	965,300	4.2
Prosser, WA	725,100	2.0
Yakima, WA	376,000	1.8
Madison, WI	675,300	3.2
	5,098,100	29.5

DUBOIS, IDAHO

Question: I would like to address another issue with Dr. Kinney, that being the sad state of the U.S. Sheep Experiment Station in Dubois, Idaho. Last summer, it was brought to my attention that the facility was in need of additional funds for upkeep and maintenance, new facilities, and additional permanent and irregular labor to expedite research at the facility. Most of all, I was appalled that the ARS would allow the use of machinery and equipment which is in such deplorable shape. It is a sad testament to the priorities which ARS places on sheep research. I have several pictures here of the equipment which ARS expects their employees to use to feed and protect over 6,000 head of sheep. Frankly, I am amazed that this machinery continues to run, it is a testament to the tenacity of those who work in Dubois Sheep Station that this machinery works at all. I urge ARS to complete an immediate review of the machinery and equipment currently being used at Dubois and submit to this subcommittee their report as to the safety and reliability of this equipment. If this equipment does not meet minimum safety and reliability standards I fully expect ARS to submit a request for replacement in this year.

Answer: We have reviewed all of the equipment items presently being used at the Dubois facility. Of this equipment, we have identified 16 items that are in poor condition. These items consist of several light and heavy trucks, including feed and water trucks, stock trailers, farm tractors, backhoe and dozer equipment, road grader and a forklift. As funds become available, action will be initiated to replace them.

GRAMM-RUDMAN-HOLLINGS

Question: Dr. Kinney, the recently implemented 4.3 percent reduction in the ARS budget which resulted from the Gramm-Rudman-Hollings deficit reduction law, had a disproportionate effect on the ability of many ARS researchers to conduct their research. Since the budgets of many ARS research programs are primarily devoted to personnel and I understand that personnel cuts were not allowed, the net effect in many cases were severe reductions in operating budgets, ranging from 10 to 50 percent. It is my understanding that at the Aberdeen, Idaho Research and Extension Center, for example, the Gramm-Rudman-Hollings cut resulted in a reduction of about 25 percent in the operating budgets of its ARS researchers.

If a FY87 budget, at least equal to the Administration's proposal is approved, overall funding for the ARS will be restored to a pre-March 1 level, with an additional 13 million dollar increase.

Is it the intention of your Agency to restore current ARS research programs to at least the 1986 level, pre-Gramm-Rudman-Hollings or will this funding be redirected to new programs?

If the funding is to be redirected can you identify the new areas to be funded?

Answer: It is our intention to restore funding in all program areas to the pre-Gramm-Rudman-Hollings level.

STAFF YEAR INCREASES

Question: The Administration's FY87 budget proposal would increase ARS personnel by 60 Staff Years (SY) from 8,100 SY to 8,160 SY in FY87.

What are your plans for these proposed increases in personnel?

Answer: All of the additional staff will be assigned to field locations. The additional ceiling will be allocated to the new thrusts proposed in the 1987 Budget for plant germplasm and commodity conversion and delivery.

Germplasm evaluation -- Evaluation research will identify the desired genetic diversity in our germplasm collections, provide basic information on what diversity exists and how it is distributed within the collections.

Gene transfer and germplasm enhancement -- Research will be conducted to develop strategies and technologies required for the efficient, precise, and operative transfer of desired genes into economically important crops plants.

New and value-added dairy products (food and nonfood) -- Research to develop biotechnologies to convert milk components to new food forms and value-added chemicals, and to eliminate impediments in current domestic and export markets, such as cholesterol and lactose.

New and value-added products from corn, wheat, cotton and soybeans (food and nonfood) -- Research on technologies to include utilization of microbial and enzyme engineering to carry out chemical reactions essential to conversions.

Reduce losses and remove barriers to commodity exports -- Research will address both animal and crop commodity problems including quality issues and action agency priorities.

New lightly processed fruit and vegetable products -- Research to develop methods to provide lightly processed fruits and vegetables which meet buyer's quality demands, safety standards and shelf-life needs.

Resources are proposed to be implemented at the following locations:

Stuttgart, Arkansas
Albany California
Fresno, California
Miami, Florida
Winter Haven, Florida
Athens, Georgia
Dawson, Georgia
Manhattan, Kansas
New Orleans, Louisiana
Beltsville, Maryland
Mississippi State, Mississippi
Stoneville, Mississippi
Columbia, Missouri
Clay Center, Nebraska

Experiment, Georgia
Savannah, Georgia
Honolulu, Hawaii
Peoria, Illinois
Urbana, Illinois
Ames, Iowa
Lane, Oklahoma
Wyndmoor, Pennsylvania
Charleston, South Carolina
College Station, Texas
Weslaco, Texas
Prosser, Washington

Question: Will most of these new positions be going to the Beltsville Agricultural Research Center and the Plant Gene Expression Center in Albany, California?

Answer: The new positions will be allocated to the locations proposed for the new thrusts in the 1987 Budget; not necessarily only to the Beltsville Agricultural Research Center and the Plant Gene Expression Center in Albany, California.

PRODUCTIVITY OF SCIENTISTS

Question: If they are, are you of the opinion that personnel stationed at large ARS facilities are more productive than those stationed at State Experiment Stations?

Answer: No, ARS is not of the opinion that personnel stationed at large facilities are more productive than those stationed at State Experiment Stations or elsewhere. ARS makes decisions on scientist position placement based on research problems to be addressed, mission of laboratories, and where the research team can be best assembled.

CONCENTRATION OF RESEARCHERS

Question: Don't you think that by concentrating researchers at a few large ARS facilities they will become isolated from their peers at State Experiment Stations and the constituency they are supposed to serve, the U.S. farmer?

Answer: No, scientists located at large ARS facilities do not become isolated from their peers in the State Experiment Stations or other research organizations. Many State scientists are in fact co-located with ARS in ARS facilities. The general public is the ultimate constituent and beneficiary of ARS research. Farmers are one principal user group of ARS-developed technology for delivery to the public. Other important users and agents for delivery are the private commercial and industrial sector such as food processing, chemical, and equipment manufacturing companies.

TRANSFER OF HIGH TECHNOLOGY RESEARCH

Question: In your opinion, will concentration of researchers at Beltsville and the Plant Gene Expression Center enhance the transfer of new high technology research to existing land grant university research programs?

Answer: Yes, this concentration will create a critical mass of scientific talent and make most effective use of expensive, modern laboratory equipment and space. The core group of scientists at the Plant Gene Expression Center will work closely with scientists located in a consortium of land grant universities, industry, and other research organizations. Scientists at Beltsville have and will continue to transfer information and/or processes to land grant institutions through cooperation. We have always had close working relationships with land grant universities.

BARLEY

Question: Dr. Kinney, I'm sure you are aware that barley is an important crop in Idaho and in the United States. In 1985, total U.S. barley production was 589 million bushels, with an estimated value of 1.3 billion dollars. In Idaho, which ranked second in 1985 production, at 72 million bushels, meant 160 million dollars to the State.

In order for barley to remain a competitive crop in Idaho and the United States, it is critical that new barley varieties be developed that provide higher returns to growers and improved quality to meet the needs of domestic and export markets.

The Administration has proposed a FY 1987 budget of $515 million for ARS, an increase of $35 million from FY 1986.

If this budget is approved by Congress, what impact will it have on barley research programs?

Answer: The $35 million increase for ARS includes restoration of the 1986 sequestration of funds, including those temporarily reduced from barley research. The new program increases for 1987 over and above this restoration include accelerated research on plant gene transfer at Albany, California, which will be applicable to barley as well as to other agronomic crops.

Question: What is your Agency doing to insure that a well-balanced team of ARS barley research personnel in diverse disciplines is being maintained?

Answer: ARS is committed to maintaining at least the current level of support for barley research. Our National Program Staff regularly reviews our program with both the American Malting Barley Improvement Association and the National Barley Improvement Committee as we attempt to best utilize and deploy our resources to address the problems of greatest importance.

Question: Have you included provisions in your budget to fill vacancies created by the retirement of barley research personnel and to maintain these programs in barley?

Answer: We do not expect retirements among our barley scientists during FY 1987, but if there are, we will evaluate the position, or positions, relative to problems relating to barley and available resources. We are committed to maintaining at least our current level of financial support for barley research.

GERMPLASM EVALUATION, GENE TRANSFER, AND GERMPLASM ENHANCEMENT

Question: The FY 1987 budget calls for an increase of about $3.5 million in spending on germplasm evaluation, gene transfer, and germplasm enhancement projects.

What are your plans for this funding?

Answer: We plan to support evaluation and maintenance of soybeans-Urbana, Illinois; stone fruits-Fresno, California; corn and wheat-Columbia, Missouri; cotton-College Station, Texas; small fruits-Beltsville, Maryland; peanuts-Experiment, Georgia; cucurbits-Charleston, South Carolina; rice-Stuttgart, Arkansas; potatoes, stone fruits, and pome fruits-Glenn Dale, Maryland; and beans-Prosser, Washington.

We also plan to support the application of improved gene transfer techniques-Albany, California; enhancement of muskmelon and watermelon-Charleston, South Carolina; gene mapping of soybeans-Beltsville, Maryland, and Ames, Iowa; germplasm enhancement of florist crops-Beltsville, Maryland; and germplasm enhancement of cotton-Stoneville and Mississippi State, Mississippi.

Question: It is my understanding that the ARS is currently allocating $100,000 per year for evaluation of the USDA barley collection.

Considering the importance of barley as a U.S. crop, have provisions been made to increase the germplasm and gene transfer efforts on barley in FY 1987?

Answer: The current barley evaluation program will continue in 1987 without increase. The increased gene transfer research program in 1987 at Albany, California, will be applicable to barley as well as to other agronomic crops.

NEW AND VALUE-ADDED PRODUCTS

Question: The Administration's FY 1987 budget is also calling for an increase of $10 million for research on commodity conversion and delivery. Three million of this increase would go to the development of new and value-added products from corn, wheat, cotton, and soybean.

What are the ARS plans for this proposed increased funding?

Answer: We plan to support development of novel, nonwoven product concepts for cotton-New Orleans, Louisiana; enzymatic and chemical modification of oil-Wyndmoor, Pennsylvania; technologies for conversion of vegetable oil to industrial products-Peoria, Illinois; and chemical and microbial conversion of starch to industrial products-Peoria, Illinois.

Question: Considering the large surplus of barley and the need of the barley farmer for expanded markets, how much of this increase should be dedicated to barley?

Answer: The four commodities presenting the greatest national surplus problem were targeted for the FY 1987 increase. While none of the new projects will deal directly with barley, the concepts developed are expected to be applicable to barley and other crops produced in surplus.

BARLEY YELLOW DWARF VIRUS

Question: It has been called to my attention that the disease barley yellow dwarf virus poses a major threat to U.S. wheat, barley, and oat production.

Although there are few independent State and ARS projects directed towards the serious problems caused by this virus, does the ARS have any plans to coordinate these research efforts to control this virus?

Answer: We are proud of the lead role ARS has played in barley yellow dwarf virus research, but we also share your concern about the seriousness of this disease problem. We have been fortunate that some excellent scientists--Federal and State--have been addressing this disease problem and we believe the efforts have been both cooperative and coordinated. Such research has contributed to the solution of this disease on oats through development of resistant germplasm. Similar research is proceeding on barley and wheat.

Question: Is there a possibility that money can be reprogrammed to fund a Ph.D. and a technician to staff a barley yellow dwarf diagnostic center?

Answer: Yes. We are giving high priority to identifying such an opportunity.

QUESTIONS SUBMITTED BY SENATOR KASTEN

GROUNDWATER CONTAMINATION

Question: Mr. Kinney, there is a lot of concern in Wisconsin about pesticides contaminating groundwater.

This is especially true in central Wisconsin, which has sandy, porous soils. Most of our potato and vegetable crops come from this region. As you know, research at the University of Wisconsin and elsewhere has indicated that the pesticide Aldicarb, which has been widely used on potatoes, may tend to suppress the immune system in humans.

Could you outline for us what ARS plans to do in the near future to deal with this threat to our groundwater?

Answer: ARS is conducting a major research program aimed at understanding how several contaminants reach groundwater, among them pesticides. As our understanding of pesticide movement in soils increases, we will be developing simulation techniques for use by farm managers and governmental bodies for assessing and predicting the potential for groundwater contamination and for selecting the most appropriate land use and treatment practices for minimizing contamination. ARS is already actively engaged in research intended to reveal management practices that will result in minimal or no contamination -- management alternatives such as crop rotations, pesticide rotations, mixing chemicals for optimum pest control and minimum leaching, and tillage practices. Of interest to Wisconsin is a recent redirection of ARS research at St. Paul, Minnesota, to strengthen the agency's national program on groundwater quality. The St. Paul scientists are developing a program which will include investigating the movement of pesticides in sands. ARS scientists at Tifton, Georgia, are investigating the movement of Aldicarb in sandy soil.

Question: What are the key technical issues involved in identifying the threat to groundwater? What limitations, if any, does ARS labor under in researching those issues?

Answer: Key technical issues include 1) identification of the portions of the landscape most likely to recharge groundwater and 2) transport and fate of pesticides in unsaturated soil between the root zone and the water table. Primary limitations are the same as those of any agency or business faced with balancing a number of high priority needs against limited resources.

BADGER ARMY AMMUNITION PLANT

Question: Mr. Kinney, I was recently made aware that the Department of Defense intends to alter the terms of a 20-year agreement under which the Dairy Forage Research Center has the use of about 1,400 acres of land at the Badger Army Ammunition Plant near Baraboo, Wisconsin.

This land is now being used for the production of experimental forages and other feed for the Center's herd of dairy cattle. D.O.D. apparently intends to commence charging the Forage Center for use of this land.

I am concerned that the diversion of scarce resources from the already underfunded Center could damage the research effort there. I don't see the point of doing that just to make D.O.D.'s books look a little better.

What is ARS's position on this matter?

Answer: Pursuant to a Department of the Army Permit, the Agency is allowed use, until February 5, 1999, of approximately 1,370 acres of Army land located at the Badger Army Ammunition Plant, Baraboo, Wisconsin - this property is in addition to a 64-acre Ammunition Plant tract, the title to which was transferred to ARS by the Army in May 1984. For this transfer, ARS was required to pay $70,000. Under the terms of the Permit, ARS use and occupancy of the property is to be done without Army cost or expense for items such as property maintenance, property damage, utilities, etc. As these expenses are stipulated in the Permit, ARS has taken appropriate measures to budget for their payment. Any additional charges, however, have not been budgeted and no Agency resources are available for their payment.

QUESTIONS SUBMITTED BY SENATOR SPECTER

NEW AND VALUE ADDED DAIRY PRODUCTS RESEARCH

Question: Milk and dairy products constitute Pennsylvania's number one agricultural commodity. I am very pleased to see that you have proposed an increase of $1.5 million for new and value added dairy products research. Will this research be done exclusively in ARS labs or will it be done in conjunction with State research units and land-grant colleges?

Answer: This research will principally be conducted within ARS. Where it is deemed appropriate and necessary, cooperative efforts with State research units and land-grant colleges will be developed to assure rapid and successful attainment of the research objectives.

AVIAN INFLUENZA

Question: In 1983/1984 and again in 1986, the Pennsylvania poultry industry was hit by outbreaks of avian influenza. In both instances, Pennsylvania poultry was embargoed by a number of Pennsylvania's foreign trading partners. Losses to our poultry growers have been great. You have proposed an increase of $3 million for removing barriers to commodity exports. Will any of these funds be spent on improving the export potential of poultry products?

Answer: No, none of the proposed increase is targeted for improving the export potential of poultry products. However, since 1983, ARS has redirected resources to provide increased effort in avian influenza research. We will continue to maintain and expand, if necessary, these higher priority programs until we can find the answers to these important questions. The present base program support for avian influenza research is $656,000.

FOOD IRRADIATION

Question: Your budget request includes an additional $2.5 million to develop lightly processed fruit and vegetable products. Will any of this proposed project deal with food irradiation?

Answer: Low-dose food irradiation along with other physical treatments, such as microwave, will be explored as potential means for extending shelf-life of partially processed fruits and vegetables.

PRESERVATION TECHNIQUES FOR MUSHROOMS

Question: Will this project address new preservation techniques for fresh or processed mushrooms?

Answer: Preservation of mushrooms will not be specifically addressed in this new project, but the specific techniques developed under this research initiative should be applicable to mushrooms.

AGRICULTURAL RESEARCH CENTER AT PENNSYLVANIA STATE UNIVERSITY

Question: Your 1987 budget submission includes no funding for buildings and facilities. What were the results of the feasibility study of a new agricultural research center at Pennsylvania State University?

Answer: The feasibility study for a new agricultural research center at Pennsylvania State University is being conducted with a committee consisting of representatives from industry, the University, Cooperative State Research Service, and the Agricultural Research Service. The committee is reviewing the feasibility of a proposal for a State-owned research facility. The authority for funding the construction of such a facility is covered by the provisions of the Research Facilities Act which is specifically designed to provide assistance to finance such State projects. The study will be completed in April and the Department will submit the study report to the Congress as requested.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

GYPSY MOTH

Question: How much was spent for gypsy moth in FY 86 and what is contemplated for FY 87?

Answer: In FY 86, ARS has funded $1,025,400 for gypsy moth research. It is contemplated that the gypsy moth research in the 1987 program will be supported at the level of $1,071,500.

Question: For what activities will these dollars be directed and at what funding levels?

Answer: These funds are used to support the following programs: virus enhancement and improved use, $250,000; characterization of newly discovered gypsy moth pathogens, $100,000; pheromone chemistry, trap efficiency and mating disruption, $200,000; exploration, importation and management of biological control agents, $380,000, neuroendocrine studies, $100,000; and monitoring and integrated management, $41,500.

Question: What progress is being made in these research efforts?

Answer: The ARS research program on the gypsy moth seeks to develop improved understanding of the gypsy moth and the complex of pathogens and natural enemies that impact upon it. In 1985, two new pathogens not formerly known from North American populations were discovered. Also, the establishment of a new parasitic species from Asia was confirmed in 1985 and a fungus disease was imported from Japan as a biological control agent. Additionally, ARS is developing technology directly useful to homeowners and urban-suburban communities. In cooperation with APHIS, the Forest Service and the State agricultural experiment stations, ARS is developing technology involved in sterility concepts, standardization of survey and monitoring methods and other methods for containing the spread of gypsy moth into uninfested areas.

TCK SMUT

Question: What objectives have been reached in the TCK smut research program?

Answer: We have developed many varieties now widely grown that are resistant to the TCK smut fungus. We also have effective seed treatments for wheat sown late in the season. These accomplishments have reduced the disease to a minor problem. We have also learned how the fungus spreads and what environmental conditions are needed to permit infection and disease development. Methods have been developed that permit distinguishing the spores of TCK fungus from those of other smut fungi that contaminate stored wheat.

Question: Are there still objectives to be accomplished? If so, what are they and are they achievable?

Answer: There remain several achievable objectives, including development of varieties with resistance to additional races of the fungus that probably will emerge as problems in the future. We also need to know the biochemistry of the interaction between the infecting fungal spore and the host plant as an assist to breeders and geneticists.

Question: What efforts have been pursued to address the market objection to TCK smut that has been raised by the People's Republic of China?

Answer: Three approaches have been taken that should convince the People's Republic of China that there is no scientific basis for the boycott of U.S. wheat. They are the research data on the disease itself. Also, we have brought PRC scientists into our labs to study who openly admit while in the U.S. that this disease is no threat to their Country but who do not maintain this view upon returning home. Finally, ARS has examined in detail the environmental conditions in the PRC via satellites and has published that these conditions are not conducive to this disease becoming a problem in the PRC.

Question: Can the market objection be addressed through additional research or is it principally an issue of the People's Republic of China not presently needing to import wheat from the Pacific Northwest?

Answer: The market objection probably can not be addressed through additional research.

HOPS RESEARCH

Question: What level of funding for hops research will be provided in FY 87?

Answer: Planned funding for hops research in FY 1987 is $199,600.

Question: What objectives are currently being addressed in this program? What activities will be pursued in FY 87?

Answer: Objectives of this program are to screen world germplasm resources for quality and yield characteristics, incorporate new genetic material into commercially acceptable germplasm lines, and test improved germplasm as commercial varieties for domestic and export markets. The same objectives will be pursued in FY 1987.

TREE FRUIT

Question: What level of funding is contemplated in FY 87? How does this compare with FY 86?

Answer: Projected funding for deciduous tree fruit crops in FY 87 is $12,390,200. Planned funding for FY 86 is $11,091,800.

Question: At what facilities will this research be conducted and at what funding levels?

Answer: Research on deciduous tree fruit is located at 24 locations. Planned funding levels for FY 1987, by location, are as follows:

Location	Appropriation Level FY 1987
Booneville, AR	$257,600
Albany, CA	688,200
Davis, CA	211,000
Fresno, CA	1,016,600
Riverside, CA	136,900
Gainesville, FL	12,900
Miami, FL	15,700
Athens, GA	359,200
Byron, GA	1,057,700
Savannah, GA	45,400
W. Lafayette, IN	115,500
Beltsville, MD	1,631,000
Frederick, MD	28,100
E. Lansing, MI	261,600
New Brunswick, NJ	482,500
Wooster, OH	54,100
Lane, OK	169,900
Corvallis, OR	68,600
Wyndmoor, PA	284,000
Prosser, WA	43,600
Wenatchee, WA	1,177,200
Yakima, WA	1,347,600
Kearneysville, WV	2,848,500
Rotterdam, Netherlands	76,800
TOTAL	12,390,200

Question: What research objectives have been accomplished at the Pacific Northwest facilities?

Answer: While all research objectives have not yet been accomplished, major research accomplishments have been achieved by use of cultural and management practices to increase production efficiency, use of dwarfing rootstocks to increase yields/acre, use of growth regulating compounds to reduce alternate bearing and improve fruit quality, use of basic biology to understand and control life cycles of insect and disease pests, use of integrated pest management systems to reduce cost of pest control, use of controlled atmospheres and handling and packaging techniques to maintain fruit quality in storage, and use of postharvest quarantine treatments to facilitate fruit exports.

Question: What objectives remain?

Answer: We plan to continue existing research projects but with emphasis on biochemical and physiological studies on developing and maintaining fruit quality; postharvest pathology studies to reduce fruit losses during storage; basic biology, ecology, and behavior studies to control insect and disease pests; basic research studies on tree growth and development; integrated pest management systems; and fruit treatments to expand export markets.

Question: What is the potential for the export of tree fruit from the Pacific Northwest? What research is being pursued to enhance this market?

Answer: There appears to be considerable potential for exporting tree fruits from the Pacific Northwest and anticipated increases in fruit production would encourage such exports. Apple production in particular is expected to increase during the next few years. With high quality fruit in increasing demand in domestic and export markets, we see a continued demand for Pacific Northwest fruit. We plan to give emphasis to those areas of research that would help develop or maintain fruit quality or help facilitate fruit exports. This includes fumigation and other postharvest research so as to allow exports to Japan and other Far East countries where codling moth and fireblight disease do not exist.

FORAGE SEED CENTER

Question: When will construction of the Forage Seed Center in Corvallis, Oregon, be completed?

Answer: We are expecting the Forage Seed Center to be completed by December 1986.

Question: When it is completed, how many persons will be housed at that facility? How many persons can be located at the facility?

Answer: Upon completion, we expect to house a total of 13 employees. The facility when fully staffed, will house a total of 30 employees.

Question: Does the FY 87 request reflect the additional funds necessary to fully staff that facility? If not, why not?

Answer: No. Additional funds are not included in the FY 87 budget request.

Question: What level of funding will be required to fully staff the facility? What level of funding will be needed to fully staff the research program?

Answer: Support for 5 additional scientists and their research programs at the new Corvallis facility is estimated at $1.1 million.

Question: What level of funding will be provided nationally for the forage seed program in FY 87 and at what facilities?

Answer: Total ARS funding for forage seed research in FY 87 is $1,783,900 at the following locations: Corvallis, OR; St. Paul, MN; Reno, NV; Stillwater, OK; Temple, TX; and Columbia, MO.

Question: What research objectives have been accomplished? What objectives remain?

Answer: The following research has been accomplished:

Plant Pathology: Postharvest burning of fields of annual and perennial ryegrass, tall and red fescue, and Kentucky bluegrass gives excellent control of three important dieases; mobile field incinerators were tested as a field-burning substitute but were too expensive to implement; rust diseases in ryegrass and bluegrass were controlled by nickel-sulfate; the endophyte fungus was killed in infected seed of tall fescue by aerated steam treatment; testing methods were developed to detect the endophyte fungus in seeds and seedlings of tall fescue; and endophyte survival in seeds of tall fescue and ryegrass were determined for conditions commonly encountered in farm storage; and headblight in orchardgrass was controlled by Bravo.

Entomology: Sex attractants and pheromones for the glassy cutworm, sod webworm, and armyworm were discovered and field tested, and are being used in traps for monitoring populations to identify potential infestations in advance of damage and to time insecticide application to control adults before egg laying; and feeding injury and the biology of the blackgrass bug, grass thrips, the sod webworm, and the billbug were studied to develop management practices to reduce losses in forage seed production.

Agronomy: Activated carbon was tested and implemented as a management practice for establishing new stands of grass for seed production; and selective herbicides were evaluated for control of weeds in grass and legume seed fields.

Agricultural Engineering: A vertical belt thresher was designed, developed, tested, and is commercially available for specialized seed cleaning operations; an experimental indent cylinder seed cleaner was redesigned and tested for making more precise length separations in grass and legume seed mixtures;

electrostatic properties were utilized to separate contaminating flower parts and seeds; magnetic fluids were used to separate flower parts from crop seeds and for separating poorly filled seeds; and a filament thresher was developed and tested for removing unwanted appendages from high-value crop seeds.

Remaining Objectives:

Plant Pathology: Study the biology, ecology, and control of pathogens of forage grasses and legumes for seed; initiate research to evaluate and predict disease progress curves to reduce fungicide usage for disease control; develop cultural practices and residue removal or management techniques that will maintain seed yield and quality in the absence of field burning; study the biology and ecology of pathogens to reduce seed transmission; and study diseases that cause root and crown rot that reduce or destroy stands.

Entomology: Study the biology, ecology, and control of insect pests that attack the roots, foliage, and flowers of forage legumes and grasses grown for seed; expanded research will identify sex pheromones and plant chemical attractants that will permit detection and monitoring of insect populations for reducing insecticide usage and disrupting mating; expand investigation of diseases and parasites of leafcutter bees and existing pollinators in legume seed fields; and improve pollination of forage seed crops by introducing exotic bee pollinators.

Agronomy: Evaluate herbicide movement, uptake, and response data to model weed control and crop safety; develop improved management practices for applying herbicides with safeners to protect seedling grasses from injury; determine ecological aspects of competition between seed crops and specific problem seeds; evaluate varietal differences in herbicides from bands to seedling crops and weeds; and develop new systems for controlling weeds not controlled well by current practices.

Agricultural Engineering: Expand harvesting and processing techiques utilizing new physical principles to minimize loss of seed during harvesting and cleaning; use physical property data to model cleaning of crop seed/contaminant mixtures in commercial use; test and evaluate stand-alone robotics machines for application to the forage seed industry; and test and utilize "machine vision" for identification and separation of seeds and contaminants in seed samples.

Plant Physiology: Initiate research to discover physiological mechanisms that will stimulate seed production in the absence of field burning; study increases in disease susceptibility coincident with flower development; determine the influence of environment and management practices of components of yield and genetic stability when forage seed crops are grown outside the region of origin; study the partitioning of nutrients stored in the plants into the developing seeds; determine the fundamental aspects of the physiological and morphological traits associated with seed yields to determine why some cultivars are poor seed producers; and discover and identify high-yielding genes for incorporation into breeding materials to improve seed yields.

Question: What is the potential export market for forage seed? Will this be enhanced by research pursued at the Forage Seed Center?

Answer: The mission of this Research Center is to maintain and increase the productivity and quality of forage seeds. As this mission is accomplished, the U.S. share of the export market will be maintained and is expected to increase. Present export market is: alfalfa, $37.7 million; red clover, $2.1 million; orchardgrass, $2.4 million; Kentucky bluegrass, $13.9 million; ryegrass, $21.1 million; tall fescue, $4.5 million; and additional grass seeds equalling approximately $4 million.

POTATO RESEARCH

Question: Please provide a breakdown of potato production by State and by types of potato in 1985.

Answer: The most recent data is provided in the following table:

U. S. Potato Production by Type[1]

State	Winter[2]	Spring[3]	Summer[4]	Fall[5]	Total
Alabama		644	955		1,599
Arizona		1,647			1,647
California	1,456	11,115	2,916	7,280	22,767
Colorado			1,988	17,225	19,213
Connecticut				315	315
Delaware			1,265		1,265
Florida	1,184	6,740			7,924
Idaho				86,600	86,600
Illinois			636		636
Indiana			216	750	966
Iowa			210		210
Louisiana		60			60
Maine				21,360	21,360
Maryland			296		296
Massachusetts				580	580
Michigan			2,560	12,540	15,100
Minnesota			1,680	13,775	15,455
Montana				1,924	1,924
Nebraska			550	2,240	2,790
Nevada				3,300	3,300
New Jersey			1,828		1,828
New Mexico			2,639		2,639
New York				10,356	10,356
North Carolina		2,352	348		2,700
North Dakota				20,615	20,615
Ohio			319	2,465	2,784
Oregon				22,680	22,680
Pennsylvania				5,160	5,160
Rhode Island				598	598
South Dakota				1,820	1,820
Tennesse			270		270

State	Winter2/	Spring3/	Summer4/	Fall5/	Total
Texas		1,240	2,825		4,065
Utah				1,728	1,728
Vermont				63	63
Virginia			1,540		1,540
Washington				56,925	56,925
Wisconsin				21,350	21,350
Wyoming				520	520
TOTAL	2,640	23,798	23,041	312,169	361,648

1/ 1984 production in units of 1,000 hundredweight
2/ Primarily red skin potatoes for fresh market
3/ Primarily round white potatoes with emphasis on chip stocks
4/ Primarily round white potatoes with some russets
5/ Primarily russet potatoes but also round whites used for chip stocks and fresh market

Question: Please provide a breakdown by State of both ARS and CSRS research funding provided in FY 86 and the levels and facilities where research will be pursued in FY 87.

Answer: Planned funding of ARS potato research in FY 1986 and FY 1987 is shown in the following table:

	Appropriation Level	
Location	FY 1986	FY 1987
Albany, CA	$89,900	$93,900
Davis, CA	7,600	8,000
Tifton, GA	72,300	75,500
Aberdeen, ID	297,100	310,500
Orono, ME	236,600	247,200
Beltsville, MD	931,100	1,122,900
East Grand Forks, MN	392,800	410,500
Ithaca, NY	259,200	270,800
Wooster, OH	69,800	72,900
Wyndmoor, PA	965,300	1,008,700
Prosser, WA	725,100	757,700
Yakima, WA	376,000	392,900
Madison, WI	675,300	705,600
TOTAL	5,098,100	5,477,100

The most recent data available from the Current Research Information System on CSRS funding for potato research by location is for fiscal year 1984 and we will provide this information. We would expect that the Directors of the State agricultural experiment stations would continue to fund potato research in fiscal years 1985 and 1986 at approximately the same level as in fiscal year 1984. The elimination of the Special Research Grants program in fiscal year 1987 would result in a reduced funding level for those states who have received the Special Research Grants awarded in fiscal year 1986.

Funding of CSRS potato research, by location, for FY 1984 is shown in the following table:

State/Location	Funding Levels
ALABAMA: Auburn University	$19,072
ARIZONA: University of Arizona	4,621
CALIFORNIA: Univ. of California, Berkeley	23,518
COLORADO: Colorado State University	189,174
CONNECTICUT: Connecticut Agricultural Experiment Station	17,054
University of Connecticut	9,964
DELAWARE: University of Delaware	27,185
FLORIDA: University of Florida	2,190
GEORGIA: Fort Valley State College	3,716
GUAM: University of Guam	40,000
IDAHO: University of Idaho	200,041
INDIANA: Purdue University	39,288
IOWA: Iowa State University	7,713
KANSAS: Kansas State University	10,218
KENTUCKY: University of Kentucky	8,856
LOUISIANA: Louisiana State University	22,429
MAINE: University of Maine	457,636
MARYLAND: University of Maryland	150,414
MASSACHUSETTS: University of Massachusetts	41,292
MICHIGAN: Michigan State University	45,396
MINNESOTA: University of Minnesota	209,627
USDA/ARS Northern States Area, St. Paul, Minnesota	50,000
MISSISSIPPI: Mississippi State University	604
MISSOURI: University of Missouri	1,051
NEBRASKA: University of Nebraska	28,056
NEVADA: University of Nevada	2,553
NEW YORK: Cornell University	338,120
Geneva Agricultural Experiment Station	1,147
NEW JERSEY: Rutgers University	26,097
NORTH CAROLINA: North Carolina State University	38,839
North Carolina A&T State University	16,453
NORTH DAKOTA: North Dakota State University	90,618
OHIO: Ohio Agric Research & Development Center	16,386
Ohio State University Research Foundation	70,000
OREGON: Oregon State University	118,637
PENNSYLVANIA: Pennsylvania State University	132,633
PUERTO RICO: University of Puerto Rico	15,473
RHODE ISLAND: University of Rhode Island	53,098
SOUTH DAKOTA: South Dakota State University	1,351
TEXAS: Texas A&M University	19,337
VIRGINIA: Virginia Polytechnic Institute and State University	2,024
WEST VIRGINIA: West Virginia University	105,879
WISCONSIN: University of Wisconsin	500,490
WYOMING: University of Wyoming	2,400
TOTAL	3,348,022

POTATO RESEARCH

Question: What percentage of potato production is provided by the Pacific Northwest States?

Answer: Based on the most recent production figures, the Pacific Northwest States produce 46 percent of total U. S. potato production.

Question: What percentage of potato research is undertaken at the research facilities in those States?

Answer: About 27 percent of ARS potato research funds are obligated at locations in the Pacific Northwest.

Question: To what do you account for the discrepancy between the percentage of funding for potato research and the percentage of potato production in the Northwest? Do you intend to rectify this situation so that the research funding more accurately reflects current production?

Answer: Irrespective of location, it is intended that the basic and long-term ARS potato research programs serve all production areas and the entire U. S. potato industry. Certainly this is true of our research on biology and control of pests, evaluation of quality characteristics, improved methods of storage, germplasm evaluation and preservation, and improved germplasm and varieties. New ARS potato varieties, for example, are grown in all production areas and represent a large proportion of the total U.S. acreage.

We do not believe it is necessary and we have no plans to make a redistribution of potato research funds so as to better balance expenditure of funds with potato production in specific geographic areas. We are working with the National Potato Council so our research will continue to serve the national needs of the total U.S. potato industry.

DARK END SYNDROME IN POTATOES

Question: Do the current research levels and objectives address the "dark end" syndrome which is beginning to affect russet potatoes in the Pacific Northwest? If not, will ARS redirect funds for this purpose?

Answer: The dark end syndrome of potatoes is physiological in nature but is genetically controlled. It is caused by an accumulation of reducing sugars in the stem end of the potato and is induced by cold soil temperatures prior to harvest or low temperatures in storage. Scientists screen for resistance to this condition in our breeding programs and newer varieties have reduced incidence of damage. The problem has been particularly bad in the Pacific Northwest this last year. The concerned States have very active research programs. We will explore opportunities to redirect funds to this problem and will also request the Pacific Northwest States to use the new funds allocated for cooperstive research for this particular problem.

Question: What level of funding would be required to address this very important problem?

Answer: Approximately $500,000 per year would be required if a new research program were to be initiated on the dark end syndrome of potato.

CALICIVIRUS RESEARCH

Question: For the past two fiscal years ARS has provided funding to OSU to pursue calicivirus research. That research was completed in September, 1985 and has not been continued, even though a new two year proposal has been submitted.

Since the new proposal has not been accepted does this mean that USDA believed that vesicular exanthema from caliciviruses, exposure can't occur? That it can't infect pigs or cattle.

Answer: No. In ARS, we acknowledge that vesicular lesions indistinguishable from vesicular exanthema of swine can occur from experimental exposure of pigs or cattle.

Question: OSU has arrived at several new findings with regard to the emergence of exotic caliciviruses in livestock. These findings show that caliciviruses in ocean fish can produce vesicular exanthema in swine, that calicivirus having an ocean presence have been isolated from domestic cattle, that preliminary serologic surveys of domestic cattle in the OSU research show exposure to calicivirus serotypes and that these viruses cause vesicular disease in experimentally exposed cattle. Does ARS dispute these findings? How do they compare with the findings of USDA on this matter? Have these findings been confirmed by the Plum Island Animal Disease Center (PIADC) laboratories?

Answer: ARS does not dispute the caliciviruses research findings that OSU scientists have developed over the past several years. USDA scientists at the PIADC have confirmed that at least certain serotypes of the caliciviruses which have been isolated from marine mammals can cause vesicular lesions in swine and cattle when experimentally exposed. USDA has no evidence that caliciviruses having an ocean presence infect cattle causing clinical signs except under experimental conditions.

Question: Will ARS pursue research in this area in FY 87? If not, please explain why no research is being pursued in light of the above findings?

Answer: Yes. ARS has already underway a project of research in caliciviruses at the National Animal Disease Center at Ames, Iowa. Monies have been redirected from other in-house programs at that location to develop expertise in research and diagnostic support of the needs of the action/regulatory agency in the Department and anticipated needs of the swine industry.

Question: If yes, will this research be undertaken at Oregon State University? If not, why not?

Answer: No. The ARS research will not be done at Oregon State University. The work will be done at the National Animal Disease Center by the Department's outstanding swine virologist and a research associate who is currently being recruited. The work is being done as an in-house project since there is a need for maintenance of a long-term capability.

Question: There has been some discussion of pursuing this research in-house in ARS in Ames, Iowa. It is my understanding that this is in the heart of the major swine producing area in the U.S. Is this the appropriate location for undertaking this research in light of the nature of the disease and the receptivity of swine to the viruses?

Answer: We feel that the National Animal Disease Center is the proper location and facility to locate research on caliciviruses. The scientific and technical staff has extensive experience in animal pathogen biocontainment research since this location was the major research center for hog cholera virus research in the 1960's and 1970's. ARS has laboratory facilities, trained technicians, animal caretakers, and scientific staff with vast experience and safety record in handling pathogens highly infectious to the livestock and poultry populations of the United States and especially the State of Iowa.

QUESTIONS SUBMITTED BY SENATOR BURDICK

BARLEY

Question: As a representative of the largest barley producing State, I am intensely interested in the barley research that you do. Last year you assured me that there would be no reduction in the barley research efforts. Can you assure me of that again?

Answer: Yes. There are no plans to reduce support for ARS barley research.

Question: Do you have any intention of redirecting ARS research workers presently engaged in barley research to other crops?

Answer: We have no such plans or intentions.

BARLEY YELLOW DWARF VIRUS RESEARCH COORDINATION

Question: I note in your testimony the virtual elimination of yellow dwarf virus on oats. You indicate that you intend to turn your attention to the virus in barley and winter wheat. I understand that there is research going on around the country on the barley yellow dwarf virus, but there seems to be a lack of central coordination on the project. Would you agree with that assessment and would it not be appropriate for the ARS to fill that coordinating role?

Answer: While there has not been formal coordination of barley yellow dwarf virus research, it is a very small group of excellent scientists who have been involved and who coordinate well among themselves. ARS has had a lead role in this research and we hope to intensify our activity, but I do not believe our primary concerns here are organizational.

BARLEY GERMPLASM EVALUATION AND ENHANCEMENT

Question: Of the $3.5 million increase in plant germplasm research, how much of that will go toward barley germplasm evaluation and enhancement?

Answer: None of the FY 1987 increase is specifically targeted for barley germplasm evaluation or enhancement. The increase for plant gene transfer at Albany, California, will be broadly applicable to barley as well as to other agronomic crops.

GRASSHOPPER FUNGUS AND POTATO RESEARCH IN NORTH DAKOTA

Question: How much does ARS intend to spend on grasshopper fungus and potato research in North Dakota in 1987 and how does that compare with the total research for those projects?

Answer: We plan to obligate $35,000 in FY 87 for a specific cooperative agreement with North Dakota for research on grasshopper fungus. Total funds planned for grasshopper fungus research in FY 87 is $221,500. For all potato research, we plan to obligate $5,477,100 in FY 87. We established a 3-year cooperative agreement for $60,000 with North Dakota State University in FY 86; some of these funds will be used in FY 87 for research on chemical disinfectants for bacterial potato diseases. While not located in North Dakota, we plan to obligate $410,500 for potato research in FY 87 at the Red River Valley Potato Laboratory, East Grand Forks, Minnesota. This research serves both the Red River Valley potato production area and the U. S. potato industry.

BEE RESEARCH

Question: Do you propose to close the Madison bee laboratory? If so, how will this closure affect your bee mite research?

Answer: Yes, the Madison bee laboratory will be closed at the end of 1986. The funding resources will be used in part to accelerate research on parasitic mites at the new ARS bee laboratory in Weslaco, Texas. This research will include determination of the economic damage attributable to mites and development of effective and safe acaricides to control the mites.

AGRICULTURAL RESEARCH

Question: How will the cut in the Extension Service programs affect your ability to make known the advances you achieve in agricultural research?

Answer: We do not expect the Extension Service program reductions to prevent or significantly curtail communication of ARS research advances to users. The Extension programs represent an important, but not only, avenue for the transfer of ARS research information and technology. Other avenues are direct to farmers and farmer organizations; other Departmental action agencies such as SCS, APHIS, and FGIS; agricultural industrial sector such as chemical, seed, food processing, pharmaceutical, and equipment manufacturing companies; private agricultural consultants; and public, scientific, and agricultural trade news media.

A-76 COST STUDIES

Question: Dr. Kinney, I understand that when 10 or more FTE positions are converted to contract, a cost comparison is to be done by ARS. I further understand that on three separate occasions, ARS contracted out more than 10 FTE's without a formal cost comparison. Apparently, on two of these occasions, an abbreviated cost comparison was done.

Can you please provide me with a copy of these two cost comparisons? (Contact numbers 53-3K06-2-100 and 53-3K06-2-75)?

Answer: Copies of the above referenced cost comparisons follow:

COMPARATIVE COST OF IN-HOUSE AND CONTRACTING-OUT PERFORMANCE OF THE REVIEW AREA SERVICES AT THE SOUTHERN REGIONAL RESEARCH CENTER

Line #	Cost Element	1st Year	2nd Year	3rd Year	Total	TABLE REFERENCE
	IN-HOUSE PERFORMANCE					
1.	Direct Material	$ 58,456	$ 58,456	$ 58,456	$ 175,368	2
2.	Material Overhead	12,609	12,609	12,609	37,827	3
3.	Direct Labor	624,531	624,531	624,531	1,873,593	4
4.	Fringe Benefits on Direct Labor	160,760	160,760	160,760	482,280	5
5.	Operations Overhead	278,632	278,632	278,632	835,896	6
6.	Other Direct Costs	56,457	56,457	56,457	169,371	11
7.	General and Administrative Expense	119,740	119,740	119,740	359,220	12
8.	Inflation	-0-	17,271	35,406	52,677	13
9.	TOTAL	$1,311,185	$1,326,456	$1,346,591	$3,986,232	
	PERFORMANCE BY CONTRACTING-OUT					
10.	Contract Price	789,014	794,225	802,018	2,385,257	
11.	Transportation	-0-	-0-	-0-	-0-	
12.	Contract Administration	31,561	31,769	32,081	95,411	
13.	Government Furnished Property	124,313	124,313	124,313	372,939	2, 8 & 9
14.	Standby Maintenance	-0-	-0-	-0-	-0-	
15.	Other Costs	-0-	-0-	-0-	-0-	
16.	General and Administrative Expense	15,665	15,686	15,718	47,069	
17.	TOTAL	960,553	965,993	974,130	2,900,676	
	OTHER CONSIDERATIONS-ADDITIONS AND (DEDUCTIONS) TO IN-HOUSE PERFORMANCE					
18.	Cost of Capital	$31,663	$30,431	$29,199	$91,293	9
19.	One-Time New Start Costs	-0-	-0-	-0-	-0-	
20.	Other Costs (Deductions)	-0-	-0-	-0-	-0-	
21.	Other Costs	-0-	-0-	-0-	-0-	
22.	TOTAL	$31,663	$30,431	$29,199	$91,293	
	OTHER CONSIDERATIONS-ADDITIONS AND (DEDUCTIONS) TO CONTRACTING-OUT PERFORMANCE					
23.	Cost of Capital	$31,663	$30,431	$29,199	$91,293	9
24.	Utilization of Government Capacity	-0-	-0-	-0-	-0-	
25.	One-Time Conversion Costs	7,405	7,405	7,405	22,215	14 & 15
26.	Other Costs					
27.	Federal Income Taxes (Deductions)	4,163 (7,890)	4,163 (7,942)	4,163 (8,020)	12,489 (23,852)	
28.	Net Proceeds from Disposal of Assets (annual value)	-0-	-0-	-0-	-0-	
29.	Other Costs	-0-	-0-	-0-	-0-	
30.	TOTAL	35,341	34,057	32,747	102,145	
	MINIMUM COST DIFFERENTIAL					
31.	New-Start	-0-	-0-	-0-	-0-	
32.	Conversion	$109,784	$109,784	$109,784	$329,352	16
	SUMMARY					
33.	Adjusted Cost of In-House Performance (Line 9 - Line 22 + Line 31)	1,342,848	1,358,887	1,375,790	4,077,525	
34.	Adjusted Cost of Contracting-Out Performance (Line 17 + Line 30 + Line 32)	1,105,678	1,109,834	1,116,661	3,332,173	
35.	Cost of In-House Over (Under) Cost of Contracting-Out Performance (Line 33 - Line 34)	237,170	249,053	259,129	745,352	

IN-HOUSE ESTIMATE PREPARED BY:

JWilson (Name) 7-22-82 (Date)

CHIEF, FMD, S&E (Title) 301-436-8100 (Telephone)

COST COMPARISON PREPARED BY:

Michael S. Chitwood (Name) 22 July 82 (Date)

Chief, Personnel Division (Title) 301-436-8100 (Telephone)

APPROVED BY:

JWKirk (Name) 7-22-82 (Date)

Acting Center Director SRRC (Title) 504/589-7512 (Telephone)

AUDIT OPINION

We have reviewed the above form and substantiated the currency, reasonableness, and completeness of the data entries made prior to bid opening. We further substantiated that those entries are in compliance with OMB Circular A-76 and the related Cost Comparison Handbook.

PERFORMANCE RECOMMENDATION ~~IN-HOUSE~~ OR CONTRACT; APPROVED BY:

E.L. Kendrick (Name) 7-22-82 (Date)

Regional Administrator (Title) 504/589-6253 (Telephone)

(Name) (Date)

(Title) (Telephone)

COMPARATIVE COST OF IN-HOUSE AND CONTRACTING-OUT
PERFORMANCE OF THE REVIEW AREA SERVICES AT
THE EASTERN REGIONAL RESEARCH CENTER

Line No.	Cost Element	1st Year	2nd Year	3rd Year	Total	Table Reference
	In-House Performance					
1.	Direct Material	$ 74,774	$ 74,774	$ 74,774	$ 224,322	2
2.	Material Overhead	13,460	13,460	13,460	40,380	3
3.	Direct Labor	668,025	668,025	668,025	2,004,075	4
4.	Fringe Benefits on Direct Labor	171,795	171,795	171,795	515,385	5
5.	Operations Overhead	309,665	309,665	309,665	928,995	6
6.	Other Direct Costs	97,874	97,874	97,874	293,622	12
7.	General and Administrative Expense	153,326	153,326	153,326	459,978	13
8.	Inflation	- 0 -	22,092	45,288	67,380	14
9.	TOTAL	$1,488,919	$1,511,011	$1,534,207	$4,534,137	
	Performance By Contracting-Out					
10.	Contract Price	935,040	953,659	976,854	2,865,553	
11.	Transportation	- 0 -	- 0 -	- 0 -	- 0 -	
12.	Contract Administration	37,402	38,146	39,074	114,622	
13.	Government-Furnished Property	$ 129,641	$ 129,641	$ 129,641	$ 388,923	2, 9+10
14.	Standby Maintenance	- 0 -	- 0 -	- 0 -	- 0 -	
15.	Other Costs	- 0 -	- 0 -	- 0 -	- 0 -	
16.	General and Administrative Expense	19,177	19,262	19,368	57,807	
17.	TOTAL	$1,121,260	$1,140,708	$1,164,937	$3,426,905	
	Other Considerations-Additions and (Deductions) To In-House Performance					
18.	Cost of Capital	$ 25,206	$ 24,114	$ 23,022	$ 72,342	10
19.	One-Time New Start Costs	- 0 -	- 0 -	- 0 -	- 0 -	
20.	Other Costs (Deductions)	- 0 -	- 0 -	- 0 -	- 0 -	
21.	Other Costs	- 0 -	- 0 -	- 0 -	- 0 -	
22.	TOTAL	$ 25,206	$ 24,114	$ 23,022	$ 72,342	
	Other Considerations-Additions and (Deductions) To Contracting-Out Performance					
23.	Cost of Capital	$ 25,206	$ 24,114	$ 23,022	$ 72,342	10
24.	Utilization of Government Capacity	- 0 -	- 0 -	- 0 -	- 0 -	
25.	One-Time Conversion Costs	5,788	5,788	5,788	17,364	15+16
26.	Other Costs (Phase-in Addition)	1,989	1,989	1,989	5,967	
27.	Federal Income Taxes (Deductions)	(9,350)	(9,537)	(9,769)	(28,656)	
28.	Net Proceeds from Disposal of Assets	- 0 -	- 0 -	- 0 -	- 0 -	
29.	Other Costs (Annual Value)	- 0 -	- 0 -	- 0 -	- 0 -	
30.	TOTAL	$ 23,633	$ 22,354	$ 21,030	$ 67,017	
	Minimum Cost Differential					
31.	New Start					
32.	Conversion	$ 122,113	$ 122,113	$ 122,113	$ 366,339	17
	Summary					
33.	Adjusted Cost of In-House Performance (Line 9 + Line 22 + Line 31)	1,514,125	1,535,125	1,557,229	4,606,479	
34.	Adjusted Cost of Contracting-Out Performance (Line 17 + Line 30 + Line 32)	1,267,006	1,285,175	1,308,080	3,860,261	
35.	Cost of In-House Over (Under) Cost of Contracting-Out Performance (Line 33 - Line 34)	$ 247,119	$ 249,950	$ 249,149	$ 746,218	

IN-HOUSE ESTIMATE PREPARED BY:
J. L. Wilson
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COST COMPARISON PREPARED BY:
R. C. Bachman
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APPROVED BY:
H.
(Name) 5-14-82 (Date)
Director, ERRC
(Title) 215-223-6593 (Telephone)

AUDIT OPINION

We have reviewed the above form and substantiated the currency, reasonableness, and completeness of the data entries made prior to bid opening. We further substantiated that those entries are in compliance with OMB Circular A-76 and the related Cost Comparison Handbook.

PERFORMANCE RECOMMENDATION (IN-HOUSE OR CONTRACT) APPROVED BY:
Glen Vanden Berg
Glen Vanden Berg
(Name) 5-14-82 (Date)
Act'g Regional Admin., NER
(Title) 301-344-2418 (Telephone)

(Name) (Date)
(Title) (Telephone)

A-76 COST STUDIES

Question. Why was a full cost comparison not done on all three occasions?

Answer: To date, ARS has contracted out more than 10 FTE's without a formal cost comparison on three occasions. On two of the three occasions, positions were converted to contract as "add-ons" to an existing A-76 contract. In both instances an "abbreviated cost comparison" was performed, which indicated a conversion to contract was more economical than retaining the activities in-house. As required by OMB Circular A-76, a waiver of cost comparison was obtained from the Assistant Secretary for Science and Education. Contract Number 53-3K06-2-100 for these additional functions at the Southern Regional Research Center was valued at $343,433. Contract Number 53-3K06-2-75 for the additional functions at the Eastern Regional Research Center was valued at $287,886. The third occasion when more than 10 FTE's were converted without a formal cost comparison was with our mail, messenger, and duplicating activities in Beltsville, Maryland. The contract was awarded to an 8(a) contractor and conversion was authorized by Departmental regulations concerning OMB Circular A-76 implementation. In all three of the instances mentioned, provisions for Federal employees "right of first refusal" to available jobs with the contractors applied. At this time we do not have any similar conversions scheduled for the near future.

Question: Obviously, ARS has incurred costs in implementing the OMB Circular A-76 program, such as hiring and/or training personnel, performing management reviews, conducting studies, and contracting for the actual A-76 studies.

What are the extra costs associated with the program?

Answer: OMB Circular A-76 requires agencies to conduct commercial activities reviews as an ongoing management responsibility. Because those responsibilities cut across many management and program areas including contracts, personnel, financial management, specific functional/program area management, etc., we do not maintain a separate and discrete data base to separately track all of the costs associated with the A-76 program. However, we have contracted out to have the following A-76 studies conducted:

Consultant	Activity	Cost Comparison Results	Consultant Costs
Advance Technology Incorporated	National Animal Disease Center	Won In-house	$184,000
	Plum Island Animal Disease Center	Won In-house	
	Delta State Research Center	Won In-house	

Consultant	Activity	Cost Comparison Results	Consultant Costs
Booz-Allen & Hamilton	Eastern Regional Research Center	Contracted Out	$182,000
	Northern Regional Research Center	Contracted Out	
	Southern Regional Research Center		
Sterling Institute	Russell Research	Contracted Out	88,000

Question: How many contract specialists has ARS hired to work with the A-76 program? Please provide this information broken down by central, area and field offices, and research centers. What is the cost, including benefits, of these positions?

Answer: ARS has a Special Projects Section in its Contracting and Assistance Division that handles A-76 reviews, as well as other kinds of contracts. The authorized staffing for the Special Projects Section is 6.0 FTE's. Total payroll cost is $188,200. At Research Centers we have Administrative Contracting Officers and Procurement/Assistance Officers who perform A-76 duties along with other contracting duties. Their locations and annual payroll costs (including fringe benefits) are:

Location	FTE's	Costs
Southern Regional Research Center	1	$35,770
Russell Research Center	1	41,684
Northern Regional Research Center	1	38,112
Eastern Regional Research Center	1	40,494
Western Regional Research Center	1	42,875
TOTAL	5	198,935

QUESTIONS SUBMITTED BY SENATOR CHILES

EMERGENCY CITRUS CANKER RESEARCH

Question: I know you are aware of the very serious problem Florida faces regarding the outbreak of the dreaded citrus canker. This disease literally threatens the viability of the citrus industry and is therefore of great concern to me. I would like to know about the status of the emergency citrus canker research program. You'll recall this program, as part of the Agricultural Research Service, was funded at $1 million for FY-1986.

Will this important program be continued in FY-1987?

Answer: Yes, we intend to continue with a comprehensive research program on the pathogen, the disease, and on developing control methods.

Question: Will it receive $1 million in the coming fiscal year?

Answer: Yes. We intend to maintain the 1986 level of support for research on citrus canker for 1987.

Question: Will it be structured and administered in the same way?

Answer: Yes, $750,000 will be expended by the University of Florida via a cooperative agreement with ARS. In-house projects will be continued at Orlando, Florida and at Beltsville, Maryland.

AGRICULTURAL RESEARCH STATIONS

Question: Mr. Secretary, three years ago the Agricultural Research Service (ARS) proposed elimination of several important research stations in Florida. The Committee expressed its concern over this proposal by including bill language directing that current efforts at the agricultural research stations at Belle Glade and Lake Alfred, Florida, be continued and that participation in the soil, water, air and plant (SWAP) program located at Fort Pierce, Florida, be maintained.

Is it the intention of the USDA and ARS to maintain these stations in fiscal year 1987 at the past funding and service levels?

Answer: Yes, it is.

Question: Would you detail for me the Department's recommendations in regard to these stations?

Answer: In 1986, the ARS research program at Belle Glade on sugar production systems to reduce production energy inputs and conserve soil and water is supported by $177,410 and one scientist. At Lake Alfred, the ARS research program will focus on pesticide application technology for citrus production and is supported by $122,522 and two scientists. The ARS research program at Fort Pierce on soil-water-air-plant relationships is supported at approximately $35,000 and one ARS scientist on a 2-year appointment. The research at Fort Pierce is funded and under the direction of ARS scientists at Gainesville. ARS expects completion of the current research at Fort Pierce in FY '87 and recommends retention of all the indicated funding for citrus and sugar cane research in Florida.

COOPERATIVE TROPICAL ANIMAL DISEASE PROGRAM

Question: Last year the committee requested a feasibility study on establishing a joint research effort involving ARS, Hebrew University and an American institution on exotic foreign animal diseases. I understand that the study is complete and that ARS is positive and supportive of such a program. Is that correct?

Answer: An ARS committee has met to consider this issue. Committee members include representatives of ARS, APHIS, University of Florida, and University of California. ARS suppports the concept of collaboration between domestic and foreign universities because of the opportunity to develop control technologies for potentially threatening exotic animal disease organisms. The Department can neither promote nor support a research agreement with Hebrew University to the exclusion of other universities. The current budget situation prevents financial commitment from the Department for the United States-Hebrew University tropical animal research agreement.

Question: I understand that the study recognizes the need for additional facilities at Hebrew University to conduct this joint research and that the estimated need by Hebrew University is about $2.5 million. Is that correct?

Answer: Our study simply addressed the feasibility of potential increased collaboration between Hebrew University and an American university on research of foreign animal diseases.

Question: Would you supply the committee with a detailed description of what they think they need?

Answer: While we do not have a detailed description of the additional facilities Hebrew University would need for this type of research, a cooperative program would require appropriate biocontainment facilities for research, teaching, and training programs in selected animal diseases. Such facilities are costly to construct.

Question: While I'm sure the intention is to draw on the expertise at any number of American institutions, are there any particular U.S. institutions that have established relationship with Hebrew University in this important area?

Answer: Veterinary colleges and veterinary science departments in the United States are eligible to compete for Bilateral Agricultural Research Development funds for collaborative and cooperative research with Hebrew University. There are a number of cooperative programs aimed at keeping abreast of certain foreign animal diseases and doing research on diagnostic and control methods at several overseas locations. These are carried out through a variety of funding mechanisms and involve several universities.

Question: What is the nature of that responsibility?

Answer: Basically, it is cooperation on specific research projects of mutual interest to the two institutions and an exchange of faculty and student on a mutually beneficial basis.

Question: Is the University of Florida capable of serving as the coordinating American institution in this effort?

Answer: The implication of this question as to what is meant by the University of Florida serving as the coordinating institution is not clear. It would seem that each institution involved in cooperative programs with Hebrew University would need to work directly with Hebrew University on faculty exchange, mutual research projects and training programs of mutual interest. Certainly, the University of Florida is capable of serving as an effective cooperator with Hebrew University in teaching and training programs.

Question: I understand that the advantages to doing this research in Israel is the availability of the diseases and that Hebrew University has special abilities in biotechnology which you view as a promising new approach to dealing with these diseases. Could you comment on that?

Answer: Some disease agents that are exotic to the United States and cannot be brought on the U.S. mainland could be studied in Israel. In other words, certain disease agents exotic to the United States but not exotic to Israel could be studied in Israel. Hebrew University faculty uses some of the same biotechnology methodologies used by U.S. scientists, but additional cooperative and collaborative projects with U.S scientists could speed up the solution to certain livestock disease problems on a national as well as an international basis.

TROPICAL-SUBTROPICAL RESEARCH

Question: In the years since most of the responsibility for tropical-subtropical research was shifted from ARS to CSRS, ARS has still maintained approximately $735,000 in funding for this program.

Is this amount included in the FY 87 budget?

If not, why not?

Answer: The planned funding for tropical-subtropical research in FY 87 is $730,600.

BIOLOGICAL CONTROL OF PESTS AND WEEDS

Question: Would you provide me with the latest information regarding USDA involvement in bio-controls in terms of project participation, manpower and funding.

Answer: ARS has active biological control research projects at 23 locations with approximately 58 scientists with a current level of funding for 1986 at $5,559,500. Research thrusts in the biological control program are in the primary areas of insects, weeds, nematodes, and plant pathogens.

Question: Do you consider bio-control research important and necessary given our concern over the environment?

Answer: Yes, environmental concerns and high costs of current pest control technologies are the basis for the high priority of ARS bio-control research.

Question: How does the current and projected effort in the Department regarding bio-control research compare to past efforts (manpower and funding)?

Answer: Biological control research continues to be a main thrust of ARS research, and in 1986, ARS has approximately 58 scientists with a funding level of $5,559,500. In 1987, ARS has a projected effort of 58 scientists with a funding level of $5,809,300 in biological control research. The funding level in 1985 before the Federal sequestration order was $6,279,800.

MOLE CRICKET RESEARCH

Question: I understand Federal support of mole cricket research will be terminated at the end of the fiscal year.

Since mole crickets pose a threat to all of Florida and other parts of the Southeast, why is this research being terminated?

Answer: Research on the mole cricket is not being terminated, but with the concurrence of the University of Florida Department of Entomology, will continue to be funded in FY 87 at the FY 86 level of $15,000 in a cooperative effort for evaluation of bio-control agents for control of the mole cricket.

Question: Do you believe the mole cricket problem is solved?

Answer: It appears that the current research phase of the mole cricket problem is nearing completion. The cooperative funded research project with the University of Florida has provided a means for introducing potential parasites and pathogens of the mole cricket into Florida. Some of these natural enemies have become established in Florida and are providing limited control of the mole cricket.

Question: Over the years, ARS has cooperated in research on diaprepes and the lesser cornstalk borer. Do you anticipate future ARS participation in this research? If not, why not?

Answer: Yes, ARS plans to continue the current level of participation in research on diaprepes and the lesser cornstalk borer.

SOUND DETECTION OF CARIBBEAN FRUIT FLIES

Question: Would you bring me up to date on research on the detection of Caribbean fruit fly larva using sound/sonar devices?

Answer: Research findings to date show that all life stages of a single Caribbean fruit fly worm, except those less than 24 hours old, can be detected with our equipment. The equipment has been computerized for efficiency but is still too slow for practical commercial use. Interference from external sources is still a problem if the equipment were to be used under practical commercial conditions in a packing plant. It can be used in place of physically cutting fruits to detect presence of worms, such as that currently used for the fly-free program.

Question: What in-house work is being done on this project?

Answer: For the Caribbean fruit fly, we are continuing to develop a more sensitive detector, develop a system to reduce extraneous external sounds, develop application of the equipment for fruit sampling survey, and develop data on larval behavior within the fruit.

Question: Is a commercially available detection device going to be ready any time soon?

Answer: If an on-line system can be developed as a part of a quarantine treatment system, the device would be available commercially in 3-4 years. All the essential components are currently available but must be assembled and packaged into a functional commercial unit.

POTATO BREEDING PROGRAM

Question: Would you tell me something about the research being conducted by the potato breeding program?

Answer: Emphasis of ARS potato breeding programs located at Prosser, Washington; Aberdeen, Idaho; and Beltsville, Maryland, is on developing germplasm lines and varieties with improved yields; resistance to insect and disease pests; resistance to nematodes; tolerance to environmental stress factors such as heat, cold, drought, and air pollution; adaptability to different soils and climates of different production areas; good storage characteristics; and improved nutritional quality.

Question: Is there a need to expand this program?

Answer: We do not feel there is a need for expansion at this time.

Question: Are there any States in particular that have been closely associated with this program?

Answer: There are 17 States associated with the ARS potato breeding program - Colorado, Delaware, Idaho, Florida, Maine, Maryland, Michigan, Minnesota, Nebraska, North Carolina, New Jersey, New York, Ohio, Oregon, Pennsylvania, Virginia, and Washington. Florida, Virginia, and New Jersey have a particularly close association with the Beltsville, Maryland program.

Question: Are you recommending any funding increases for the program?

Answer: No. We have no recommended increases in FY 87 for the potato breeding program.

Question: What new activities or benefits would program expansion provide?

Answer: If the program were to be expanded, there would be an opportunity to do research to support the expanding potato industry in the Middle Atlantic and South Atlantic States. Areas of emphasis might be to breed for resistance to specific environmental stress factors and physiological problems to include high temperature, tuber internal necrosis caused by drought and high temperature, tuber heat necrosis, resistance to tuber rot associated with excessive rainfall, and air pollution. There also would be the desire to breed for resistance to bacterial wilt disease and other disease and insect pests more common to production areas in other parts of the United States.

Question: Would any of the expanded program research take place in any of the participating States?

Answer: If we were to expand existing research to emphasize production problems in the Middle Atlantic and South Atlantic States, we would consider expanding cooperative research in Florida, New Jersey, and Virginia, and possibly other States as well.

COOPERATIVE STATE RESEARCH SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

FORMULA FUNDS

Question: The major formula programs (non-earmarked funding) would be maintained at approximately the 1986 level. Can level funding support all of the States' high priority work if special grants are eliminated?

Answer: The elimination of the special research grants and level funding of the formula program will result in a reduction of the amount of research being done. However, the formula programs allow maximum flexibility at the station level to support research of the highest priority.

SPECIAL GRANTS

Question: Once again, the budget proposes the elimination of special research grants. In the budget submitted by USDA to the Office of Management and Budget, how much was requested for special grants?

Answer: In the budget submitted by USDA to the Office of Management and Budget, $14,785,000 was requested for the special research grants program.

Question: Won't the amount of research be drastically reduced if special grants are eliminated?

Answer: The amount of research will be reduced but the discretionary nature of the Hatch Act formula and related base funded programs allows for the continuation of the highest priority programs.

Question: What effect would this reduction have on our land-grant institutions who rely on these funds since these programs focus on problems of national interest beyond the normal emphasis in the formula programs?

Answer: The land-grant institutions would continue strong efforts on the most urgent and highest priority problems and reduce support in some other areas.

COMPETITIVE RESEARCH GRANTS

Question: For the past several years now, Congress has been providing funds for competitive research grants. You indicated in your statement, Dr. Bentley, that these grants are being awarded to a range of university, nonprofit, State and Federal researchers. Are our land-grant universities able to compete for these grants? What percentage of these grants go to land-grant universities, other universities, nonprofit, etc., researchers?

Answer: Historically, approximately 65 percent of the Competitive Research Grants have been awarded to the land-grant insitutions. This indicates that they have been very successful in competing for these grants and will probably continue to receive a large proportion of the grants awarded. In fiscal year 1985, the grants were awarded as follows: 64 percent to land-grant universities, 19 percent to other public and private universities, 7 percent to the Agricultural Research Service, 4 percent to private non-profit institutions, 4 percent to veterinary schools and colleges, 1 percent to State and local agencies, and 1 percent to Federal laboratories.

COMPETITIVE RESEARCH GRANTS PROGRAM AREAS

Question: In your opinion, is there any area (plant, animal or pest science; human nutrition, etc.) which you feel is over or under funded? Do you agree with the way in which Congress has broken them out?

Answer: All of the research areas are important and there are still many more areas where research is needed. In fiscal year 1985 the Competitive Research Grants program received 2,153 proposals requesting $493.2 million or $229,084 per proposal; 449 awards were made for $44.2 million. This represented a success rate for number of awards versus number of proposals submitted of 20.8 percent and 9.0 percent of the dollars awarded versus dollars requested. The average grant was $102,800 for two years.

Each of the research areas broken out by Congress impinges upon critical problems or issues facing American agriculture. While research in all areas is justifiable and needed, the result of defining each with specified dollar amounts prior to receipt and review of proposals may discount the urgency of addressing the broader categories of basic agricultural science. Seven of the legislatively defined research areas in fiscal year 1985 were each of $1 million or less. Of these, four ranged from about $500,000 to $700,000. The grants awarded in these categories numbered from 3 to 11, with proposals numbering from 15 to 63. Each of these small areas often requires a separate peer panel. This is a cost, not only in terms of administration and review, but also in terms of scientists' time. It tends to overuse expertise when that same expertise could be less exhaustively applied on a broader scale.

The USDA Competitive Research Grants program is unique. The program has not only survived but grown. The quality and level of its science is comparable to that of any agency--but is specifically for agriculture. Its integrity is well established and it is highly competitive. As a national resource, it must continue to maintain its quality. The advances in other countries are also continuing and we must not allow our agriculture or its science to lose on the international scene.

Considerable effort is required to discourage too many line item definitions in narrow areas. Encouragement must be given to allow the program to strengthen, but in broadly defined areas such as Plant Science, Animal Science, Forestry, Entomology, Biological and Environmental Stress and so on. Current research areas in the program need not be eliminated, as they can be subsumed under broad existing categories. The broad areas of research, rather than the narrowly defined categories, can be justified on the basis that our current knowledge of basic plant and animal science is in fact, being exhausted. The USDA Competitive Research Grants program may also be justified on the basis of being in our national interest and of being the highest calibre of science that current techniques permit. As state-of-the-art techniques are developed, they will be applied. The grants program can also augment companion activities in research facilities and the development of scientific expertise. They, too, go hand-in-hand, as it is difficult to see how one could be successful without the other.

GRADUATE FELLOWSHIP PROGRAM

Question: In 1980, a USDA study showed that there was a critical shortage in college educated agricultural scientists, educators, administrators, managers, financial advisors, and other professionals in both the public and private sectors. In some of these professions, there was an estimated 30 percent fewer available than the current demand required. Could you give us an update on that assessment?

Answer: Supply/demand trends projected in the 1980 study have become reality. Enrollments have continued to plummet in colleges of agriculture at land-grant institutions across the country. Between 1977 and 1982, total U.S. college enrollments were continuing to increase while agriculture enrollments were declining. Total U.S. college enrollments did not reflect a decrease until 1983. Demand for trained personnel exceeds available supply in several employment categories, particularly food and agricultural scientists and engineers.

Question: In response to that shortage, this Committee initiated a post-graduate fellowship program in fiscal year 1984 to draw future scientists into the agricultural science field. The Administration each year since then has proposed elimination of that program, but we retained it at $5 million in 1985 and $3 million in 1986. With a shortage of agricultural scientists projected well into the future, why has the Administration not requested any funds for this program? Has this not been a successful program?

Answer. The Department is not requesting these funds as part of the President's budget due to the need to reduce government spending. Support for the development of agricultural expertise will be provided indirectly through the Competitive Research Grants program and through the provisions of the Hatch Act and related base formula funded programs.

Question: When funds were appropriated for this program in 1984 the funds were completely obligated for the first year of a fellowship program, rather than allocated to students for the three-year span of the fellowship. This has caused those students to be dependent on further appropriations for the second and third years of their fellowships. What effect has the reduced program (only $3 million in 1986) as well as Gramm-Rudman-Hollings cuts, had on the doctoral students who face a reduction in their final year of their coursework?

Answer: At this point in time, program funds for FY 1986 have not yet been awarded. Therefore, students enrolled in the program are yet to be officially notified of a funding reduction. We anticipate that because of funding reductions in other programs, universities will be severely hampered in their efforts to fulfill the initial obligations to students and to replace lost Federal support. However, each year in the grant renewal process institutions have been apprised that continued support is "contingent" on the availability of funds for this purpose.

Question: If funds are made available for the fellowship program for fiscal year 1987, will you again allocate all the funds for one year, or will the program be administered in such a way that the recipients of these fellowships can be assured of a consistent level of funding for all three years of the program?

Answer: At the time the program was initiated the projected need for human expertise in the food and agricultural sciences was dramatic relative to the projections for the supply of trained professionals and scientists. These projections have not been proven wrong to this point. It was felt that the expertise needs were so great that an effort should be made to attract the largest number of students possible to graduate programs in the food and agricultural sciences. Should funds be available in FY 1987 for this program, we feel that a change in procedures to assure fellows of level funding for a full three years would be appropriate and an important way of convincing outstanding young students of our continuing commitment to expertise development in the food and agricultural sciences. It would be our intention to modify the program as you suggest.

SPECIAL RESEARCH GRANTS

Question: Please give justifications for each special grant elimination.

Answer: The Special Research Grants program concentrates on problems of national interest beyond the normal emphasis in the formula programs. The Hatch Act formula and related base funded programs constitute the core of the State-Federal research partnership and, when put together with State funding, provide the basic laboratory facilities, scientists, graduate students, and support necessary for the long term stability of agricultural research. Thus, these base programs become the highest priority of the State-Federal research partnership and this reduction is proposed in line with the administration's overall reductions in Federal spending. Due to the discretionary nature of the Hatch Act formula and related base funded programs, amounts allotted to State institutions permit the institutions to fund research in those areas that they identify as high priority. This flexibility could provide for maintaining some of the programs if the State institutions wish to continue the research.

ANIMAL HEALTH AND DISEASE RESEARCH

Question: What ongoing Federal and State research programs can sustain the overall animal health and disease efforts?

Answer: Although CSRS has proposed the elimination of the Animal Health and Disease Program-Section 1433 and the Special Research Grants for animal health, research on animal health and disease will continue to be conducted under the Hatch, Evans-Allen, and Biotechnology and Animal Science Competitive Research Grants programs. The states will also continue to receive funds from their State legislatures and other sources which can be used to carry out this research.

ALTERNATIVE CROPS

Question: Would you please identify the 14 alternative crops that are receiving increased attention and that were mentioned in your statement.

Answer: The 14 alternative crops that are receiving increased attention include crambe, cuphea, guayule, jojoba, kenaf, meadowfoam, tree crops, winter rapeseed, wood byproducts, Chinese tallow tree, lesquerella, stokes aster, vernonia, and lunaria.

GRADUATE TRAINING PROVIDED BY COMPETITIVE RESEARCH GRANTS

Question: Is it possible to provide the approximate amount of the funds provided for competitive grants that would be used for graduate training?

Answer: Approximately $2.4 million was spent on 191 graduate students from fiscal year 1985 funds. These dollars will support the graduate students for 2 years on the average. It should be noted that young scientists, formerly supported as graduate students under the tutelage of USDA competitive research grant awardees, are now competing successfully on their own as young independent researchers for grants in the program.

POTATO RESEARCH

Question: Please list the locations and funding levels for potato research under CSRS programs.

Answer: The most recent data available from the Current Research Information System on CSRS funding for potato research by location is for fiscal year 1984 and we will provide this information.

Potato Research

State/Location	FY 1984 Funding Levels
ALABAMA: Auburn University	$19,072
ARIZONA: University of Arizona	4,621
CALIFORNIA Univ. of California, Berkeley	23,518
COLORADO: Colorado State University	189,174
CONNECTICUT: Connecticut Agricultural Experiment Station	17,054
University of Connecticut	9,964
DELAWARE: University of Delaware	27,185
FLORIDA: University of Florida	2,190
GEORGIA: Fort Valley State College	3,716
GUAM: University of Guam	40,000
IDAHO: University of Idaho	200,041
INDIANA: Purdue University	39,288
IOWA: Iowa State University	7,713
KANSAS: Kansas State University	10,218
KENTUCKY: University of Kentucky	8,856
LOUISIANA: Louisiana State University	22,429
MAINE: University of Maine	457,636
MARYLAND: University of Maryland	150,414
MASSACHUSETTS: University of Massachusetts	41,292
MICHIGAN: Michigan State University	45,396
MINNESOTA: University of Minnesota	209,627
USDA/ARS Northern States Area, St. Paul	50,000
MISSISSIPPI: Mississippi State University	604
MISSOURI: University of Missouri	1,051
NEBRASKA: University of Nebraska	28,056
NEVADA: University of Nevada	2,553
NEW YORK: Cornell University	338,120
Geneva Agricultural Experiment Station	1,147
NEW JERSEY: Rutgers University	26,097
NORTH CAROLINA: North Carolina State University	38,839
North Carolina A&T State University	16,453
NORTH DAKOTA: North Dakota State University	90,618
OHIO: Ohio Agric. Research & Development Center	16,386
Ohio State University Research Foundation	70,000
OREGON: Oregon State University	118,637
PENNSYLVANIA: Pennsylvania State University	132,633
PUERTO RICO: University of Puerto Rico	15,473
RHODE ISLAND: University of Rhode Island	53,098
SOUTH DAKOTA: South Dakota State University	1,351
TEXAS: Texas A&M University	19,337
Texas A&M Research Foundation	36,500
UTAH: Utah State University	992
VERMONT: University of Vermont	5,005
VIRGINIA: Virginia Polytechnic Institute and State University	2,024
WASHINGTON: Washington State University	144,875
WEST VIRGINIA: West Virginia University	105,879
WISCONSIN: University of Wisconsin	500,490
WYOMING: University of Wyoming	2,400
Total	3,348,022

BIOTECHNOLOGY

Question: To what extent is the biotechnology initiative received or supported by the State Agricultural Experiment Stations?

Answer: The biotechnology initiative has been exceptionally well-received and supported by every State Agricultural Experiment Station as demonstrated by unanimous votes of the Regional Associations of Agricultural Experiment Station Directors. Many of the States have appropriated additional positions and funds to enhance the thrust and productivity of the initiative. The importance of the initiative is recognized in State, Federal and private university laboratories, where biotechnology is being utilized to resolve many fundamental and mechanistic biological questions in plant, animal, and microbial organisms.

Question: To what extent does ARS participate? What is the staffing requirement and the funding associated therewith?

Answer: In 1985 ARS received 15 grants totaling $1,517,700 under the Competitive Research Grants program for biotechnology. It is estimated that approximately 60 percent of these funds were expended on staff support salaries.

Question: How much equipment has been purchased for the biotechnology effort?

Answer: Approximately $1.2 million from the Competitive Research Grants awarded on biotechnology has been spent on equipment to further this effort. Most purchases were small items averaging less than $3,000 each.

CONSULTANTS

Question: The budget requests an increse in the amount available for consultation support. Please provide some detail as to how the money has been spent in the past and why additional funds are needed.

Answer: The Competitive Research Grants program provides support for basic research in selected high priority areas. To maintain a program of the highest quality and leadership of the highest caliber, scientists are recruited from throughout the entire U. S. scientific community to fill the Chief Scientist and program managers positions. Scientists with enough stature and esteem to command the scientific leadership needed for the Competitive Research Grants program are often earning salaries above GS/GM-15/1. The CSRS appropriation language limits the salary costs that can be charged under 5 U.S.C. 3109 to a maximum of $50,000. In the past, because of this limitation only the Chief Scientist has been appointed under the 5 U.S.C. 3109 authority, since the limit did not allow for the hiring of another person. However, with an increase in the statutorily provided authority under 5 U.S.C. 3109, these salary levels can be met, thereby providing the top scientific leadership needed to maintain a research program of highest quality.

Question: What has been the consequence of not having access to additional funds in the past?

Answer: The Competitive Research Grants program cannot maintain high-level performance and quality without using the highest quality scientists as Program Managers. Many university scientists are earning salaries above GS/GM-15/1 and it has been a constraint in recruiting superior people in high priority areas. With an increase in the consultant limitation we could offer salaries comparable to the university sector and attract scientists whose expertise and leadership skills are of the caliber needed to administer this program.

SMALL BUSINESS INNOVATION RESEARCH PROGRAM

Question: What results, if any, have come from the Small Business Innovation Research Program with regard to rural and community development?

Answer: Rural and Community Development projects awarded under the Small Business Innovation Research program have reached different research stages. Although the program is still too new for final assessment, some successes have been reported. The following projects highlight current program results.

> The "incubator" concept for business management is being pursued under a grant awarded to a small business in Rolla, Missouri. This firm has provided shared services for other small firms who need not only the physical facilities for management and production, but also business expertise and interaction with related small firms. Access to possible venture capital and State support is provided. The strength of the program lies in the involvement of the community and the University of Missouri at Rolla. Three small high-tech businesses are already successfully occupying the "incubator." The arrangement is not intended to be permanent, so as these firms grow they will move on and other new businesses will be taken in.
>
> Another project is being conducted by a North Carolina small business involving inoculation techniques for forest mushroom production. The purpose of the research is to explore the possibility for small woodlot owners in rural communities to exploit the demand for shiitake mushrooms, an increasingly popular food item imported from Japan. The specific objectives are to develop feasible techniques for growing the mushrooms. Project investigators, in cooperation with the State of North Carolina and college staff and students, are working out economic and management problems. The project has stimulated local interest and may prove to be a valuable new source of income for rural communities.

A research project being carried out by a small business in Washington, D. C. involves local area leading indicators. The research has been examining various data sources to determine which were suitable indicators of demographic and economic trends for use as predictors of growth or decline for individual counties. New unanticipated sources of information were located which allowed for expansion of the original plan. Additional potential sources of information are now being explored. The importance of the project lies in the rural counties' needs for indicators of change in economic and social status. A solidly based information file is being constructed and will be made available to rural counties for policy decisions affecting growth, income, employment, and other major social factors.

SPECIAL RESEARCH GRANTS

Question: You show an amount of $1,200,200 in fiscal year 1985 unobligated funds for special research grants. Please explain this unobligated balance.

Answer: In the fiscal year 1985 supplemental appropriations act, CSRS received $1,200,000 for a special research grant related to the relocation of the Fort Stanton Experimental Station in New Mexico. These funds were to remain available until expended. There was a delay in conducting the required survey of the land and this relocation was not completed in fiscal year 1985. All of these matters have now been resolved and a grant proposal from New Mexico State University has been solicited. The grant will be awarded in fiscal year 1986. CSRS also had other no-year funds available in fiscal year 1985 and the remaining $200 is federal administration funds which were unobligated and could be carried forward to fiscal year 1986.

IR-4 PROJECT

Question: Please list all programs and amounts of funding under CSRS which contribute to the IR-4 Project.

Answer: The information follows:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Hatch Act...............	$289,218	$304,002	$319,665
Special Research Grants:			
Pesticide Clearance...	1,382,832	1,297,812	- -
Minor Use Animal Drugs	230,472	217,092	- -
Subtotal	1,613,304	1,514,904	- -
Total	1,902,522	1,818,906	319,665

SPECIAL RESEARCH GRANTS

Question: Which special grants did you include in your budget submission to OMB? Please provide a brief justification for each one.

Answer: A fiscal year 1987 total request of $14,785,000 for the Special Research Grants program was submitted by the Department to OMB. The following categories of the Special Research Grants program were requested because of their regional and national importance.

Pesticide Clearance ($1,440,000). These grants are awarded in support of the continuing national program "Clearances of Chemicals and Biologics for Minor or Special Uses," project IR-4. Grants are made to IR-4 headquarters in New Jersey, and to the four regional laboratories in Michigan, Florida, New York, and California which function as organizational centers serving all States of the respective regions for development of data supportive of Federal registration of needed pesticides uses that are not economically feasible for development by the private sector.

Minor Use Animal Drugs ($240,000). Grants are awarded in support of the National program to obtain FDA clearance of animal drugs intended for minor uses and for minor drugs. The minor use drug program builds on the existing resources of project IR-4 and the Regional Leader Laboratories that currently support the pesticide program.

Pesticide Impact Assessment ($2,069,000). These funds will provide support for State Agricultural Experiment Station participation in the joint State-Federal National Agricultural Pesticide Impact Assessment Program. This program is designed to provide the most objective and accurate data available for defining and evaluating benefits and risks of selected pesticides having critical agricultural and forestry uses. It provides for management and coordination of activities related to the impact on agriculture of pesticide issues as well as a unified mechanism for responding to EPA regarding pesticide regulatory decisions.

Integrated Pest Management ($3,091,000). This program is a national framework for IPM research, technology transfer, and education personnel in the land-grant university and USDA system to cooperatively implement optimal crop and livestock management tactics. The Department's activities are having major impact on agricultural efficiency and profitability by reducing the cost for protecting crop and livestock against pests. Under this national program, the four regions have identified interdisciplinary priority research needs from the diverse production and protection demands that are unique to their regions.

Animal Health ($6,500,000). These funds are needed to find solutions to the most serious animal health problems that limit the efficient production of animal food products. In this competitive process, peer panels of scientists select for funding the most promising ideas by some of the nation's most highly trained, productive veterinary scientists. In fiscal year 1985, 12 percent of the 446 proposals submitted were selected for funding. The many excellent ideas by outstanding scientists among the proposals that could not be funded are indicative of the very substantial progress in disease control research that can be made under this program.

Diseases, pests and other health hazards cause annual losses in livestock production of over $14 billion. In the Nation's long-term outlook these losses have critical importance in terms of maintaining low cost animal products for consumers, in conserving energy resources required in animal production, and in meeting expanding national and international requirements for high quality protein food. Recent technological advances in the biological and medical sciences offer opportunities for application of these newly discovered principles to animal health research to produce major breakthroughs in the prevention, control or eradication of livestock diseases.

The Animal Health Science Research Advisory Board will identify several of the highest priority areas of livestock diseases on which research should be initiated or expanded. Diseases causing respiratory, enteric or reproductive problems in livestock will receive principal consideration. In a competitive process, ideas of some of the nation's most productive scientists will be selected for development of new or improved methods of prevention, control or eradication of these diseases.

Acid Precipitation Research ($695,000). In fiscal year 1983 the Cooperative State Research Service initiated a grant program in acid precipitation to augment the research base of the National Atmospheric Deposition Program (NADP), interregional project IR-7. In FY 1987 it is recommended that acid precipitation research be conducted under the Special Research Grants program instead of the Competitive Research Grants program. Federal funding for acid precipitation effects research is predominantly in the forestry and forest ecosystem area. Although limited current research on agricultural crops shows that generally they are not adversely affected directly by acidic deposition, findings on damage to certain cultivars of soybeans, corn, cool-season forage grasses, radishes, snap-beans, tomatoes and melons under certain conditions indicate the need for increased support. There is a need for research on mechanisms of damage in selected crops, dealing with interactions of biotic and abiotic stresses, and including interactions among multiple pollutants. Studies on annual crop species to determine damage mechanisms under highly-controlled experimental conditions can provide insights on plant response that also can be applied to perennial forest species. Some of the most useful avenues of crops research are in plant physiology, ecology and chemistry of rhizosphere and the plant's relationship to root-zone microbial populations. This funding would permit improved balance between forest and crops research, augmenting the effects research base of the NADP and contributing to the research objectives of the Federal National Acid Precipitation Assessment Program. The change would permit support for more research stressing multiple-factor, indirect effects of atmospheric deposition. Longer-term, basic research would be conducted on mechanisms of effect in sensitive plants, leading to ways of reducing or eliminatingadverse effects through plant breeding or other approaches.

National Biological Impact Assessment Program -- NBIAP ($750,000). This is a research based program, using the existing national network of expertise and experience in long term assessment of agricultural biota. It also encompasses the needs brought on by the new biotechnology research in agricultural systems. We need to know the impact of biological changes occurring in our nation. The need has increased very substantially since the development of recombinant DNA and closely related techniques in the early 1970's. It also has changed considerably in characteristics since those discoveries. On one hand it requires entirely new concepts of assessment, while on the other it provides wholly new tools for assessment. A research based system is essential if the high level of expertise, facilities and instrumentation, widely distributed over the entire nation, is to be successful in this effort. The emergence of this need coincides with the advent of new high speed electronic assessment and processing techniques and is essential not only to development of the full potential of biotechnology in this nation, but for national defense and such related issues as world demand for food, feed, fiber products. The system is essential to other agencies of the Department and to other Federal agencies concerned with the development of biotechnology in our nation. It will support the proposed system of Recombinant DNA Advisory Committees by (a) providing an inventory of knowledgable scientists to assist in reviewing biotechnology proposals for safety and efficacy, (b) providing information on safe test sites, and (c) providing a mechanism to increase our knowledge base of biota of our nation and the world.

Currently, we assess the impact of plant, animal, and microbial biota in agriculture in a wide range of cropping and animal production systems. This is done through growth chambers, greenhouse assessment, and research plots. In the case of all major crops, a wide range of processes are used in which new varieties and species are assessed for their impact. Under the system envisioned in the National Biological Impact Assessment Program, a national design and project process will be developed with performance protocols based on current model system research projects.

Concurrently, where materials produced by modern biotechnologies (such as r-DNA) would be involved, a national system of projects for assessing the potential impact of these materials in a step-by-step manner prior to their release into the environment will also be devised. Materials would enter the National Biological Impact Assessment Program and in the process other agency protocols such as the NIH-RAC would be utilized where and when appropriate. It will be a highly participatory system that will appraise biological changes of importance to agriculture, forestry and natural resources. There will be continuous cycling of data predicated on culture systems and practices, developed in a modular fashion.

SPECIAL RESEARCH GRANTS

Question: What were the reasons for not requesting the others? Please provide a brief justification for eliminating each one.

Answer: The Special Research Grants program concentrates on problems of national interest beyond the normal emphasis in the formula programs. The Hatch Act formula and related base funded programs constitute the core of the State-Federal research partnership and, when put together with State funding, provide the basic laboratory facilities, scientists, graduate students, and support necessary for the long term stability of agricultural research. Thus, these base programs become the highest priority of the State-Federal research partnership and this reduction is proposed in line with the administration's overall reductions in Federal spending. Due to the discretionary nature of the Hatch Act formula and related base funded programs, amounts allotted to State institutions permit the institutions to fund research in those areas that they identify as high priority. This funding could provide for maintaining some of the programs if the State institutions wish to continue the research. The funding support which has been provided through this program for Germplasm Resources in support of the national system of clonal repositories for fruit and nut crops is proposed to be continued by the Agricultural Research Service.

QUESTIONS SUBMITTED BY SENATOR MCCLURE

SPECIAL RESEARCH GRANTS

Question: I would like to address the funding requests in the Department's proposal for the Cooperative State Research Service. I am dismayed that Special Research Grants are eliminated along with Animal Health and Disease Research programs authorized by Section 1433 P.L. 95-133. These programs are very important to the agriculture interests in the Pacific Northwest. I oppose elimination in the Soil Erosion in the Pacific Northwest--STEEP, animal health research, TCK smut in wheat, potato research, rangeland research grants, alcohol fuels and higher education grants and funding. These programs are vital to the Pacific Northwest. Please provide me with the following information on these specified programs: STEEP, TCK Smut, Potato Research, Alcohol Fuels--current status, budget justifications for all years the programs have been funded. Please be specific in the breakdown of administrative costs and where these went.

Answer: The Special Research Grants program has concentrated on problems of national interest beyond the normal emphasis in the formula programs. The Hatch Act formula and related base funded programs constitute the core of the State-Federal research partnership and when put together with State funding, provide the basic laboratory facilities, scientists, graduate students, and support necessary for the long term stability of agricultural research. Thus, these base programs become the highest priority of the State-Federal research partnership. Prior funding under the Special Research Grants program has already directed attention to these research areas, including STEEP, TCK smut, potato and alcohol fuels and the research grants funded will be used over a period of up to five years for completion of studies. The level of funding and the time period of support provided by these grants will yield important information.

Specific funding support for these programs has been proposed for elimination for several years. Due to the discretionary nature of the Hatch Act formula and related base funded programs, amounts allotted to State institutions permit the institutions to fund research in those areas that they identify as high priority. This flexibility could provide for maintaining some of the programs if the State institutions wish to continue the research.

Attached for the record are the fiscal year 1987 budget justifications for the elimination of all special research grants, including STEEP, TCK smut, and potato research and for the elimination of alcohol fuels research which has been funded under the Competitive Research Grants program in fiscal years 1985 and 1986.

COOPERATIVE STATE RESEARCH SERVICE

SPECIAL RESEARCH GRANTS

STEEP RESEARCH

	FY 1985	FY 1984	FY 1983	FY 1982	FY 1981	FY 1980	FY 1979	FY 1978	FY 1977	FY 1976
University of Idaho	$199,103	$199,907	$200,711	$201,114	$194,000	$145,500	$145,500	$150,000	$116,667	$83,335
Oregon State University.	199,102	199,907	200,711	201,113	194,000	145,500	145,500	150,000	166,667	83,330
Washington State University	199,102	199,906	200,711	201,113	194,000	145,500	145,500	150,000	116,666	83,335
Subtotal..........	597,307	599,720	602,133	603,340	582,000	436,500	436,500	450,000	350,000	250,000
Federal Administration .	18,660	18,660	18,660	18,660	18,000	13,500	13,500	- -	- -	- -
Small Business	6,033	3,620	1,207	- -	- -	- -	- -	- -	- -	- -
TOTAL	622,000	622,000	622,000	622,000	600,000	450,000	450,000	450,000	350,000	250,000

COOPERATIVE STATE RESEARCH SERVICE

SPECIAL RESEARCH GRANTS

TCK SMUT RESEARCH

	FY 1985	FY 1984	FY 1983	FY 1982
University of Idaho.........	$59,518	$59,759	$60,000	$48,000
Montana State University ...	59,518	59,759	60,000	48,000
Oregon State University	85,828	86,173	86,520	69,000
Utah State University	42,160	42,331	42,500	34,000
Washington State University.	99,644	100,047	100,450	80,360
Subtotal	346,668	348,069	349,470	279,360
Federal Administration	10,830	10,830	10,830	8,640
Small Business	3,502	2,101	700	- -
Total	361,000	361,000	361,000	288,000

POTATO RESEARCH

	FY 1985	FY 1984	FY 1983
University of Idaho.............	$64,060	$64,836	- -
University of Maine.............	58,060	57,836	$58,612
University of Maryland	20,000	20,000	20,000
Michigan State University	192,060	- -	- -
Cornell University	57,000	57,500	57,500
Oregon State University	64,000	64,000	- -
Pennsylvania State University ..	57,000	57,500	57,500
Washington State University	64,000	64,000	- -
Subtotal	576,180	385,672	193,612
Federal Administration	18,000	12,000	6,000
Small Business	5,820	2,328	388
Total	600,000	400,000	200,000

COOPERATIVE STATE RESEARCH SERVICE

ALCOHOL FUELS RESEARCH GRANTS

FY 1985

Purdue Research Foundation	$60,000
University of Massachusetts	82,583
Cook College, Rutgers Univ.	103,000
Cornell University	77,500
North Carolina State Univ.	95,489
Lehigh University	99,990
Subtotal	518,562
Federal Administration	16,200
Small Business	5,238
Total	540,000

FY 1984

University of Colorado	$80,000
Colorado State University........	79,552
Purdue Research Foundation	80,000
Massachusetts Institute of Tech..	79,869
Michigan State University	79,954
Lehigh University	80,000
Forest Service, USDA	41,282
Subtotal	520,657
Federal Administration	16,200
Small Business	3,143
Total	540,000

FY 1983

University of California - San Diego	$48,048
University of Illinois	74,848
Purdue University	239,862
Oregon State University	80,000
Virginia Polytechnic Institute	79,994
Subtotal	522,752
Federal Administration	16,200
Small Business	1,048
Total	540,000

COOPERATIVE STATE RESEARCH SERVICE

ALCOHOL FUELS RESEARCH GRANTS

FY 1982

Colorado State University	$79,083
Purdue University	150,000
Worcester Polytechnic Institute	70,000
University of Nebraska	64,847
Rutgers University	79,980
Lehigh University	79,890
Subtotal	523,800
Federal Administration	16,200
Small Business	- -
Total	540,000

FY 1981

University of Idaho	$10,000
Purdue University	80,000
Massachusetts Instit. of Tech.	100,000
Misssissippi State university	100,000
Rutgers University	97,000
Brooklyn College	98,000
Subtotal	485,000
Federal Administration	15,000
Total	500,000

FY 1980

Purdue University	$91,967
Iowa State University	100,000
University of Nebraska	100,000
Rutgers University	99,202
South Dakota State University	93,831
Subtotal	485,000
Federal Administration	15,000
Total	500,000

SOIL EROSION RESEARCH IN THE PACIFIC NORTHWEST (STEEP)

This is a three-State multi-disciplinary research and development program titled, "Solutions to Environmental and Economic Problems: An Erosion Project for the Pacific Northwest." It focuses on reducing soil erosion and water runoff from complex and finely textured soils of the region while maintaining or improving potential productivity of the soils.

Major accomplishments of the Idaho, Washington, and Oregon Agricultural Experiment Stations coordinated approach include identification of tillage and crop management systems that significantly reduce erosion while maintaining crop yields. A computer simulation model is being perfected to assess the relationships between conservation tillage and other production factors such as: crop variety, soil physical condition, economics, weather conditions and fertilizer needs. This base of new technology when fully implemented will bring about significant reductions in soil erosion. Some of these techniques have already been adopted by wheat growers of the region.

Funding support which expands and enhances this Special Research Grant program also comes from State appropriations and private sources. Budgets of the three State Agricultural Experiment Stations show their contributions as: Idaho, $536,000; Oregon, $320,000; Washington $450,000. In addition, approximately $738,000 is annually contributed by the wheat grower associations of Idaho, Washington, and Oregon.

TCK SMUT - WHEAT

Since fiscal year 1982, Special Research Grant funds have been made available on a discretionary basis to support a cooperative research program on TCK Smut of wheat involving the State Agricultural Experiment Stations in Idaho, Montana, Oregon, Utah and Washington. Strong research collaboration in sharing techniques, data and germplasm among the five states is continuing. Research deals with breeding, fungus germination, infection and host resistance mechanisms and TCK smut fungus detecton. Breeding work has identified 12 new sources of TCK smut resistance, in which an original group of ten known genes has been recombined, and the new combinations are helping to stay ahead of the fungus. Broad-based wheat variety development in the Northwest has been made possible by these funds, especially critical in view of reductions in other variety development efforts. Work on fungus germination has resulted in determination of temperature regimes that affect fungus spore dormancy, germination and survival in the soil, thus permitting prediction of fungus activity at various periods of the season. Infection processes were shown to be the same in juvenile plants whether tolerant or susceptible to the disease. It was found, however, that in maturing plants, TCK-tolerant genotypes have a different triggering mechanism than susceptible genotypes, permitting tolerant plants to outgrow or even inhibit further fungus damage. Fungus mutants have been identified, providing material for segregating pathogenic from non-pathogenic types. Work on fungus detection has resulted in development of a monoclonal antibody technique which allows detection of one spore in several pounds of grain and spore morphology and fluorescence information that permits a rapid, initial screen for TCK smut presence. Fiscal year 1986 Special Research Grant funds have been made available on a discretionary basis for the five cooperating states to augment current research thrusts and develop new ones, based on the four years of previous progress.

POTATO RESEARCH

Scientists at the Idaho, Maine, Maryland, Michigan, New York, North Dakota, Oregon, Pennsylvania, and Washington State Agricultural Experiment Stations are using special research grant funds to develop new disease resistant, high yielding potato varieties which can be grown for profit and which fit the needs of both industry and the fresh market. Research is being conducted in the following areas: protoplast regeneration; somoclonal variation of leaf disks and protoplasts; phosphofructose changes and sweetening capacity of potatoes stored at low temperatures; production of quality germplasm; improved propagation and evaluation procedures; and potato storage over an extended season.

ALCOHOL FUELS RESEARCH

The alcohol fuels special research grant program was changed from special research grants to competitive research grants by Congress in fiscal year 1985. Alcohol fuels is now administered under Plant Science competitive research grants, and the emphasis has changed from engineering to biological research.

The alcohol fuels program in CSRS resulted in several significant advances. Among them is the reduction in both energy and financial costs in the removal of water above the azeotrope. The use of corn meal as an absorbing medium instead of heat to remove water from the hydrous alcohol permits these savings. Another completed project has identified the initial catalytic process to convert hydrous alcohol directly to higher hydrocarbons approximating the gasoline hydrocarbon mixture.

Fiscal Year 1987 Budget Justification for Special Research Grants

Need for Change. These grants programs have concentrated on problems of national interest beyond the normal emphasis in the formula programs. The Hatch Act formula and related base funded programs constitute the core of the State-Federal research partnership and, when put together with State funding, provide the basic laboratory facilities, scientists, graduate students, and support necessary for the long term stability of agricultural research. Thus, these base programs become the highest priority of the State-Federal research partnership. Therefore, the base programs have been increased in FY 1987 due to Gramm-Rudman-Hollings and this reduction is proposed in line with the Administration's overall reductions in Federal spending.

Nature of Change. This change will eliminate this specific funding support for these programs. Due to the discretionary nature of the Hatch Act formula and related base funded programs, amounts allotted to State institutions permit the institutions to fund research in those areas that they identify as high priority. This flexibility could provide for maintaining some of the programs if the State institutions wish to continue the research. The funding support which has been provided through this program for Germplasm Resources in support of the national system of clonal repositories for fruit and nut crops is proposed to be continued by the Agricultural Research Service.

Fiscal Year 1987 Budget Justification for Alcohol Fuels Research

Funding support for the earmarked areas of soybeans and alcohol fuels research will be eliminated. Much of the soybean research could be carried out within the plant science area of the Competitive Research Grants program. The scientists initially funded in the soybean program will have had the advantage of significant grants to build a program that can successfully compete in the more general area of plant science. Due to the discretionary nature of the Hatch Act formula and related base funded programs, amounts allotted to State institutions permit the institutions to fund soybean and alcohol fuels research if they identify them as high priority and wish to continue the research.

For each of the four specified programs a table is included showing recipients of the grants in each fiscal year and the administrative costs associated with the program, as well as an explanation of the current status of each grant program.

QUESTIONS SUBMITTED BY SENATOR SPECTER

SPECIAL RESEARCH GRANTS

Question: In the past, I have strongly supported the special research grants program in CSRS. Such programs as animal health research, rural development centers, pesticide impact assessment, integrated pest management, potato research, and the milk consumption study have directly benefited Pennsylvania's farmers. This year you are proposing to entirely eliminate this program. Please provide for the record details on your budget request submitted to the Department budget office, the USDA request to OMB and what OMB allowed you to ask for.

Answer: The information follows.

Special Research Grants

FY 1987 Agency Estimate	$60,273,000
FY 1987 Department Estimate	14,785,000
FY 1987 Budget Estimate	- -

GYPSY MOTH RESEARCH

Question: Gypsy moths are a major threat to the hardwood forests of Pennsylvania. In the summer of 1987, Pennsylvania is expecting an increased level of gypsy moths. Your budget request proposes to eliminate competitive research grants for gypsy moths. Why do you think that no further gypsy moth research is needed?

Answer: Competitive Research Grants awarded in fiscal years 1985 and 1986 for gypsy moth research have provided substantial funding for research on these pests that will lead to rapid advances in our understanding of this insect. Even though the earmarked area of gypsy moths has been eliminated, research could still be carried out within the plant science and biotechnology areas of the Competitive Research Grants program. The scientists initially funded in the gypsy moth program will have had the advantage of significant grants to build a program that can successfully compete in the more general areas of biological stress and biotechnology. Also, research will continue to be conducted on gypsy moths under the Hatch Act and McIntire-Stennis Cooperative Forestry Research program.

GRADUATE TRAINING FELLOWSHIPS

Question: This budget once again proposes to eliminate graduate training fellowships. Why do you think that this program is no longer needed?

Answer: Due to the need to reduce government spending, funds for new initiatives in the President's Budget are not proposed in fiscal year 1987. Support for the development of agricultural expertise will be provided indirectly through the Competitive Research Grants program and through the provisions of the Hatch Act and related formula base funded programs.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

SPECIAL RESEARCH GRANTS

Question: Every year since I have been Chairman of the Senate Appropriations Committee USDA has come forward with a budget which requests no funds for Special Research Grants. This year is no exception. The implication in your statement is that these items are either not of a high priority or will be picked up in the base program. However, the base program is proposed to be cut from the FY 86 levels, so that funding of any of these efforts is unlikely.

In addition, the budget request implies that CSRS and base program projects involve higher priority, more worthwhile projects, while the Special Research Grants involve unnecessary research. I cite only one example in my state to repudiate any such implications: STEEP. This project is an interdisciplinary approach with a focus on soil erosion and pursuing new initiatives to deal with this critical problem. Only two years ago it was featured by USDA in the Russell Building rotunda as an outstanding example of agricultural research. Do you mean to imply by your statement that the Special Research Grants do not involve necessary research?

Answer: Research conducted through Special Research Grants has included problems of great significance and excellent programs of research have resulted. The current budget request is the result of general recognition of the importance in limiting the Federal deficit and the greater flexibility in the formula programs to adjust to meet the most urgent and pressing problems in each state.

Question: If the Special Research Grants are not funded, will they be funded out of the base program?

Answer: It is expected that the States will reassess their research priorities and allocate funds to those projects of highest priority. In this process it is anticipated that some research now being funded through the Special Research Grants program will be addressed through other funds, however, the Directors of the State Agricultural Experiment Stations will determine what research will be conducted.

Question: If yes, which projects would CSRS fund out of the base program? Please provide the Committee a priority list of projects funded in the Special Research Grants account and an explanation for the project rankings.

Answer: Decisions to support these projects from base funding would be made at the State level. The discretionary nature of the Hatch Act formula, and related base funded programs, permit the State institutions to fund research in those areas that they identify as high priority.

Question: If research funding is not provided by USDA, who will pick up the funding for projects such as TCK Smut, STEEP, Wood Utilization Research, etc., which are important to Oregon? Where is a State like Oregon, which continues to be in the midst of a recession and has had to cut back spending, supposed to find the funds? If the funding is to be provided by the farmers, in most research programs with which I am familiar, the growers are generally matching the Federal funds with their own contributions. Are the farmers expected to provide an even larger contribution?

Answer: It is anticipated that the Director of the State Agricultural Experiment Station working within the flexibility allowed by the formula funded programs would reassess the research priorities and in that process continue research judged to be most important.

QUESTIONS SUBMITTED BY SENATOR CHILES

HIGHER EDUCATION

Question: What are your views regarding the Post-Graduate Fellowship Program?

Answer: We believe that this program has been quite successful in attracting outstanding students to pursue degrees in the targeted national need areas. Whereas the average Graduate Record Examination score for graduate students in agriculture is 969, the average score for doctoral fellows in the program is 1,394 in Biotechnology, 1,294 in Food Science/Human Nutrition, 1,265 in Agricultural Marketing, and 1,235 in Agricultural Engineering.

Question: I understand that funding for this program is once again not being recommended by the administration. Why?

Answer: The Department is not requesting these funds as part of the President's FY 1987 Budget due to the need to reduce government spending. Support for the development of agricultural expertise will be provided indirectly through the Competitive Research Grants program and through the provisions of the Hatch Act and related base formula funded programs.

Question: Is this program making a contribution toward insuring an adequate number of agriculture research scientists in the coming years?

Answer: This program was initiated in FY 1984 with a $5 million appropriation. In FY 1986 the program is supporting the third and final year of training, for 259 doctoral students. Of those institutions supporting doctoral students, approximated 80 percent are land-grant and 20 percent are nonland-grant. The program boasts a 99 percent retention rate for fellows in the program.

Question: How many scientists are currently being trained under this program?

Answer: Currently, the program is supporting the academic training of 302 graduate students, 259 doctoral and 43 master's, in the four targeted fields--biotechnology, agricultural engineering, food and agricultural marketing, and food science/human nutrition.

Question: How does the proposed 1987 USDA Budget address human resource shortages in agricultural engineering, plant and animal molecular genetics, soil and water sciences, food science, human nutrition and agricultural economics?

Answer: Support for the development of agricultural expertise will be provided indirectly through the Competitive Research Grants program and through the provisions of the Hatch Act and related base formula funded programs. Additionally, the FY 1987 Budget proposes continuation of the Strengthening Grants Program for 1890 land-grant institutions, Tuskegee University, and the University of the District of Columbia. These funds are available to be used for a variety of program enhancement purposes, including the recruitment of outstanding students into food and agricultural studies.

BIOTECHNOLOGY

Question: Biotechnology holds great promise for the future growth and productivity of agriculture. Would you tell me about USDA's program efforts in this area?

Answer: The USDA's biotechnology program is very broad in scope, and is inclusive of plants, animals, microbes, and their environmental setting. Diagnostics, growth regulation at the cellular level, vaccines, and nutritional factors are major areas of agricultural biotechnology in which animal systems are involved. Microbial systems, especially bacteria, viruses, and fungi that are either pathogens or associated biota of plants are continuing to be widely investigated with respect to gene action and plant-host interaction potentials and use for herbicide degradation. Diagnostics, nuclear probes, recognition, biological control and dispersal and molecular detection are among a wide range of ongoing activities. In higher plants, gene action involving photosynthetic efficiency, response to stress, and chemical pathway bioregulation are broad major areas of concern.

Question: Would you detail fiscal year 1986 USDA involvement in biotechnology and give me a breakdown regarding manpower and funding?

Answer: The information follows.

Biotechnology Research

	Fiscal Year 1986	
	$ in Millions	SY
Agricultural Research Service	$26.3	186.0
Cooperative State Research Service	46.0	*
Forest Service	2.1	15.1
USDA Total	74.4	201.1

*Non-Federal, State Agricultural Experiment Station (SAES) only 373 SY's, 583 students, 650 staff.

Question: What is being proposed for 1987?

Answer: The information follows.

Biotechnology Research

	Fiscal Year 1987	
	$ in Millions	SY
Agricultural Research Service	$35.2	206.0
Cooperative State Research Service	42.0	*
Forest Service	2.2	15.9
USDA Total	79.4	221.9

*Data is not available on the fiscal year 1987 staffing level in SAES.

The fiscal year 1987 reduction in total funding results primarily from the proposal to terminate funding for the CSRS Special Research Grants program and the Forest Service Competitive Research Grants program.

Question: Are any funds being expended for basic biotechnology risk assessment research?

Answer: We are expending funds both within the biotechnology area as well as outside that area per se on risk assessment research. It is fundamentally part of the scientific protocol at all times, but not necessarily so stated, i.e., the purpose of the research may well be to understand a specific molecular response, and in so doing contribute extensively to risk assessment. In addition, much research is underway to specifically detect and assess biota prior to and during its exposure in a range of controlled environments. Several hundred thousand acres of land, involving all states and territories, under control of the agriculture research community, are devoted to this assessment process. Some of these sites have been under assessment for over 100 years. Data gained in these assessment efforts are basic to determination of changes, methods for detecting changes, and techniques for limiting, restricting, or reversing change. These also are elements of risk assessment. We are completing the final phases of the National Biological Impact Assessment Program we discussed with you last year, as part of our overall program to assure the safety of biotechnology research over time, and provide a basis for regulation of commercialized products.

Question: Do you anticipate future risk assessment research support? How much?

Answer: Inasmuch as we are able to improve the support of biotechnology broadly in this nation, we will be able to improve our research base and thereby contribute to risk assessment research, e.g., such components as gene action and biological stress are a substantial part of risk assessment. The developing National Biological Impact Assessment Program will provide accurate and continuous assessment of the impact of genetically altered organisms produced by biotechnological research.

EXTENSION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

EXTENSION SERVICE REDUCTION

Question: The budget proposes to cut the Extension Service by 59 percent for next year. In the past, the Administration's budget has proposed termination of such Extension programs as nutrition and food-buying education for poor families, financial management assistance to farmers, and other programs which Congress thought were important enough to earmark. This year, however, the budget not only proposes those cuts, but also a 45-percent cut in formula funds, which will, in effect, eliminate the Federal contribution for 4-H, home economics, and other local community programs. It seems to me that Extension is perhaps the most excellent example of Federal, State, local, private, and volunteer cooperation. Why does this budget request such a drastic reduction?

Answer: The Administration has proposed a policy that would use the Federal portion of Extension funds to meet the needs of farm operators in hopes of restoring profitability to American agriculture, provide for the proper management of natural resources and rural development. The FY87 budget requests reflect that portion of our current funding that the Administration estimates is used to meet these concerns.

Question: What would be the consequences of a reduction of this magnitude?

Answer: The consequences would vary from State to State. Reprioritization and redirecting of resources would occur. Reductions in staffing are anticipated.

Question: What would be the impact on personnel in Washington and throughout the country?

Answer: The Federal Extension staff would be reduced from 177 FTE's to 90 FTE's. We estimate 5,000 professional extension agents and over 5,000 paraprofessionals including nutrition aides may be impacted throughout the Nation.

BUDGET PRIORITIES

Question: The Budget states that the proposed fiscal year 1987 funding level for the Extension Service would support extension work to address "high priority national concerns, such as restoration of profitability to American agriculture, proper management of natural resources and rural area development." Could you be more specific?

Answer: In the area of restoring profitability to American agriculture, the Federal portion would be used to provide programs that assist the farm families and communities coping with financial stress, determining the best structure for their operation, and expanding their markets. Water quality and conservation is a major issue facing agriculture. These programs would involve addressing problems with groundwater contamination, pesticide and fertilizer usage and crop management practices. These programs, as well as the efforts in restoring profitability to Agriculture, all have objectives that would benefit rural development.

Question: What do you think will happen to the 4-H clubs as a result of the cut in funds for the Extension Service? Are they considered a high priority national concern.

Answer: The 4-H program throughout the nation will be impacted. States will have to decide whether they will continue using Extension Service funds, from any source, for educational programs to the youth audience.

Question: What kinds of rural-area development are envisioned?

Answer: Benefits to rural America would be derived from assisting the farmer and the local community by keeping the farmer in business, stabilizing local economies and providing opportunities for agribusinesses and service industries to continue operating.

FEDERAL ADMINISTRATION

Question: Although a 59 percent cut from the pre-sequester levels is proposed in program funding, the "Federal administration" line item is only slated for 10 percent cut. Why are administrative funds not being reduced commensurate with program reductions?

Answer: The Federal Administration line item for FY86 totals $5.4 million, of which $620 thousand was earmarked by Congress for special projects. This leaves a balance of $4.8 million for funding the administrative operations within the Federal office. In the FY87 proposal $4.8 million is requested for direct line Federal Administration funding. Of this amount $2.3 million is required for payment of lump sums, severance pay and other nonrecurring program termination costs associated with the proposed 50% reduction in staff. This leaves $2.5 million for operating the Federal office and is a 52% reduction from FY86 levels.

RURAL DEVELOPMENT CENTERS

Question: Each year, we provide funding for 4 rural development centers. Funding is provided in both the Extension Service and the CSRS accounts in our agriculture appropriations bill. Could you describe the focus of those centers and how the Extension Service and CSRS coordinate their activities there?

Answer: Through letters of agreement with the host university, each Center was created and is administered by the respective regional Directors for Extension and Experiment

Stations to encourage and conduct research and educational programs to improve the social and economic well-being of non-metropolitan communities in the regions. Each Center has a Board of Directors and a program review committee structure with representation from both Extension and CSRS. Extension reviews and approves funding for each Center's annual plan of work, and coordination between ES and CSRS not only takes place at the Federal staff level, but through active participation on the Boards and advisory committee structures. In addition, all Center projects include both State CES and research faculty participation.

Question: Why is funding never requested for these centers?

Answer: Extension believes the Regional Rural Development Center concept to be an effective mechanism to facilitate regional Extension interests in rural issues. However, in these times of constrained budgets it is the desire of the Administration for the States, in the respective regions, to fund the Centers.

Question: Last year, this Committee instructed the Southern Rural Development Center to allocate resources to helping develop an industry for muscadines, a berry native to that region of the country which could prove to be a viable alternative to traditional farming. Has that center taken any action on that directive?

Answer: The Southern Regional Rural Development Center will establish a Task Force "to identify, develop and promote new and innovative cost efficient economic alternatives to enhance farm profitability, i.e., alternative income generating opportunities, impacts of production and marketing, alternative cropping systems, and opportunities for and the role of off-farm income." It is our understanding that the community economic benefits from a muscadine industry is to be an important consideration in this effort.

EXPANDED FOOD AND NUTRITION EDUCATION PROGRAM (EFNEP)

Question: The Expanded Food and Nutrition Education Program (EFNEP) is designed to train low-income families in how to spend their food dollars and food stamps more wisely, both in an economic sense and a nutritional sense. It seems to me that this is one of the best ways to ensure that the funds we appropriate for food stamps is spent wisely by the recipients. Why does the budget not request funds for this program, which could be thought of as an investment program (spend here to save in food stamps)?

Answer: This program, along with other earmarked items in Extension's budget, were not proposed for funding as part of the Administration's effort to bring Federal spending under control and reduce the mounting Federal deficit.

Question: Last year we appropriated a total of $60.4 million for the EFNEP program. $38.6 million of that was to be transferred from the food stamp program. I am told that some problem occurred which caused the Treasury Department to reduce the amount of funds available to the Extension Service. Could you please explain this problem and did it reduce the amount available for the EFNEP program? How was this problem resolved?

Answer: In FY86 the Congress provided Extension with a $304.1 million direct appropriation and $38.6 million transfer from Food Stamps for a total of $342.7 million. Due to the exact wording in the appropriation language, as enacted into law, the Treasury Department determined that the total available to Extension Service, including any transfer, was $304.1 million. This problem has been resolved. Extension will be receiving the total $342.7 million.

1890 INSTITUTIONS

Question: Concern has been expressed to me that the 1987 budget reduction for the ES would be particularly devastating to the 1890 institutions since they receive few, if any, funds from the States. What is your reaction to this?

Answer: That is a very legitimate concern. The 1890's do not have as many non-Federal resources to use as the 1862 Land-Grant Universities. We hope that the 1890's and Tuskegee University would be able to continue to conduct these programs that they deem of value to their clientele.

SMITH-LEVER 3(d)

Question: Please give justification for each Smith-Lever 3(d) program elimination.

Answer: The Smith-Lever 3d earmarked programs are proposed for elimination in favor of the general formula funds provided Extension. These reductions were made to reduce Federal expenditures and control mounting deficits.

EFNEP PROGRAM

Question: Approximately how much of EFNEP funds are used to assist food stamp recipients? WIC recipients?

Answer: In 1985, 66 percent of the EFNEP families received food stamps and 35 percent of the EFNEP families were enrolled in the WIC program.

RURAL DEVELOPMENT CENTER

Question: What resources have been allocated from the Southern Rural Development Center to development of the Muscadine industry in Mississippi?

Answer: The Southern Rural Development Center was allocated $172,250 in FY86 from Extension. The amount to address the Muscadine industry in Mississippi is to be determined.

TECHNOLOGY TRANSFER

Question: What benefits have resulted from the technology transfer projects in Oklahoma and Mississippi?

Answer: The Oklahoma Technology Transfer project is providing a considerable number of benefits. They include development of a liaison function with industry that identifies productivity improvement needs that yield improved profitability; creation of a network of technology agents in agricultural engineering to facilitate the transfer of technology and development of linkages between industry and the research community to insure that the needs are identified and addressed. In Mississippi the project has assisted 14 counties with the installation of a program for systematically tracking property assessments. This has resulted in very substantial savings to county governments, improved operations and citizen satisfaction.

STAFFING AND OBJECT CLASS

Question: There is proposed a 50 percent cut in the number of positions at each pay grade. Is that a coincidence or was that a policy decision?

Answer: The distribution of positions by grade on the Federal staffing was simply an estimate. Actual determination as to the grade and organization structure for a reduced Federal staff has yet to be determined.

Question: Please explain the $17 million cut in "Communication, utilities, and other rent."

Answer: This object classification contained the $16.3 million that Extension Service provided the States for the Penalty Mail program. In 1987, that allocation was reduced to an estimate of $6 million and moved to object class 41, which reflects the Payments to States.

EXTENSION AGENTS

Question: You are proposing bill language which would limit the flexibility of Extension agents. The language seems broad enough to limit not only Federally-employed agents, but also those supported with other funds. Is that your intention, or is "agent" a term applied strictly to Federal employees?

Answer: The intention is to limit the programs which can be provided by State Extenion Services using Federal Extension funding.

LANGUAGE LIMITATION

Question: You then propose to delete the reference to the Home Economics program because "this provision conflicts with the primary intent of the Smith-Lever Act giving maximum flexibility to the State Cooperative Extension services in determining programs needing attention in the restrictive states." Please explain this contradiction?

Answer: The last several budget proposals from the Administration have requested the deletion of the Home Economics language. The minimum limits flexibility to the State Cooperative Extension Services. The restriction for assisting farm operators sets no minimum on the amounts to be spent in a particular area, only that the State use the Federal Extension funds first to provide programs and information to farm operators.

IR-4 PROJECT

Question: Please list all programs and amounts of funding under ES which contributed to the IR-4 Project.

Answer: The Extension Service does not have any directly appropriated funds for the IR-4 program. However, all States have a liaison to the project and many of these are Extension professionals.

SECTION 3(D) PROGRAMS

Question: Which section 3(d) programs did you include in your budget submission to OMB? Please provide a brief justification for each one.

Answer: Pesticide Impact Assessment (PIA) and Increase Agriculture Profitability through Management (Farm Financial Management) were section 3(d) programs that were included in the Department's budget submission to OMB. The request for PIA funds would allow States to utilize Extension Specialists having the background, experience, and understanding of local, State, and regional pesticide programs and pest control practices to develop information for retaining those pesticides necessary for adequate food and fiber production. As for Agriculture Profitability, the Department proposed a total funding level of $5 million in order to continue to address the farm financial crisis. One key objective of this effort was to assist farmers in revising their financial and farm business plans and to implement changes for improving their present financial situation.

Question: What were the reasons for not requesting the others? Please provide a brief justification for eliminating each one.

Answer: The following 3(d) programs were not included as part of the Department's budget submission to OMB: Integrated Pest Management, Farm Safety, Urban Gardening, Integrated Reproductive Management, and the Expanded Food and Nutrition Education Program (EFNEP). Programs in these specific areas have been developed with prior earmarked funds. Funding from State and local governments and private sources could be used to continue high priority aspects of these programs. Elimination of specifically earmarked funding for these programs is consistent with overall Federal spending reductions.

QUESTIONS SUBMITTED BY SENATOR ABDNOR

BUDGET PROPOSALS

Question: In the president's budget, the Smith-Lever 3b&c funding for Extension has been cut dramatically. What will be the effects of these cuts on national and state funding. A majority of the funds for extension programs come from matching local dollars -- I am fearful that cuts in Federal funding will result in corresponding cuts in county and state funding. What is your estimate of the effects of such cuts upon local participation in the funding of extension programs?

Answer: Reduced Federal funding will cause our State and local partners to reprioritize and refocus their programs. Some efforts may be dropped while others are reemphasized. That determination will, for the most part, be up to the States. We would hope that States and local governments would assume more of the financial responsibility for supporting those programs which they deem to be of value.

Question: I have received estimates indicating that the President's 87 budget could result in the elimination of over 50 positions in South Dakota. How are totally rural States like South Dakota to absorb such a cut in employees? We currently have fewer than 65 county agents.

Answer: The effect of the cut on staffing at the State and county level will have to be determined by the individual state extension services. They will have to structure a staff that best meets their clientele needs.

SECTION 3d FUNDS

Question: In the President's proposed budget the Section 3d funds have been zero-funded. What is the size and scope of these programs both nationwide and in South Dakota? With our recurring problems with grasshoppers and prairie dogs I have concern over proposed cuts in pest management programs.

Answer: [The information follows:]

	Dollars
Total Section 3d Funds provided States nationwide - FY 1986...............	$72,894,000
Section 3d funds provided South Dakota - FY 1986....................	$549,792

QUESTIONS SUBMITTED BY SENATOR SPECTER

STATE AND LOCAL FUNDING

Question: Your budget proposal will reduce Federal funding of cooperative extension programs in Pennsylvania by 63%. Approximately 320 Extension Service positions in Pennsylvania will be eliminated. Have the State and local cooperators indicated that they will fund this additional amount, or will programs be discontinued?

Answer: We doubt if the States will be able to totally compensate for the proposed reduction in Federal funds. However, we do believe that the States will still be able to continue those programs which address high-priority needs.

ELIMINATION OF EARMARKS

Question: You have again proposed the elimination of a number of Section 3(d) programs such as pest management, Farm Safety, and Financial Management. Why are you proposing that these programs be eliminated?

Answer: The proposed elimination of the earmarked programs is basically the result of the need to set priorities within the increasingly constrained federal budget.

RREA

Question: With the elimination of funding for the Renewable Resource Extension Act, what evidence do you have that non-earmarked funds will be used for this program?

Answer: Presently, nearly every State, in which forestry and range are important, conducts programs in some aspects of renewable resource in its base programs. We have no reason to believe that this will change with the elimination of the earmarked funds.

FUNDING REQUESTS

Question: Please provide details for the record on your budget as submitted to the Secretary and the budget as sent to OMB.

Answer: [The information follows:]

Agency Request to the Secretary	$390,000,000
Department Request to OMB	$283,777,000

EFNEP

Question: Last year the 134 Extension Service people in Pennsylvania made over 153,000 contacts with low-income clients to provide them with nutrition information. Given the importance of the Expanded Food and Nutrition Education Program, why is it being proposed for elimination?

Answer: The proposed elimination of EFNEP is also a result of the highly constrained Federal budget and the need to set priorities within that budget.

URBAN GARDENING

Question: In Philadelphia alone there were 464 community gardens which raised more than $2.2 million in fresh produce. These gardens were made possible through the urban gardening program. What is the rationale for discontinuing this program?

Answer: Again, the need to set priorities within the federal budget resulted in the proposed termination of the Urban Gardening program.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

RURAL DEVELOPMENT CENTERS

Question: Once again the FY87 budget request contains no monies for the four rural development centers. This is in addition to significant cuts being made in the Smith-Lever 3(b) and (c) base funding and proposed limitations on the expenditure of these funds to programs which are directed toward supporting services to farm operators. These proposals are being sought at a time when 60 - 70 percent of American farm family income comes from non-farm sources. Is the Extension Service currently engaged in activities that relate to the generation of this 60 - 70 percent of farm and ranch family income?

Answer: Yes, the Extension Service has been very active in programs concerned with the interdependencies between farm and ranch, and off-farm/ranch family income. Virtually all the States, including Puerto Rico and the Virgin Islands, report a variety of programs in support of financially distressed farm families. Most include counseling and small group workshops intended to aid families and communities with the off-farm employment and income generating opportunities. However, the initial and intensive phase of individual counseling leads to a second phase where there is a need for an awareness of the impacts on the community and the need for employment opportunities. Many State Extension programs are also dealing with this second phase.

Question: Have the regional rural development centers played a significant leadership role in these efforts in the states?

Answer: Yes. Though all Centers are active, two Centers have supported early work in the area of agriculture and community interdependencies, farm and off-farm rural development. Over a year ago the North Central Center at Iowa State University sponsored the first conference on the topic and since then has supported two follow-up information sharing conferences. Several years ago the Western Center at Oregon State University began work on two projects, "Hard Times" and "Communities In Transition". These two projects are efforts to help communities deal with boom and bust of energy development and the down turn of natural resource, initially forestry and minerals but later fishing and now agriculture, dependent communities.

Question: Would a loss of the centers negatively affect the ability of states to address these farm family income realted programs?

Answer: Due to budget restrictions many State Extension programs have reduced community and rural development activity. As this has happened the Centers have been the mechanism that allows States to share the remaining Extension rural development expertise across state lines. The need is to share all program expertise relative to the question of rural revitalization. The Centers are uniquely structured to perform this function for they already have a record of working on such programs.

Question: Are the regional rural development centers cost effective in assisting state extension efforts in addressing the issues of the revitalization of rural America?

Answer: We believe the Centers to be cost effective in addressing this issue.

Question: Are the rural development centers initiating, sponsoring, and providing leadership for research that takes a look at the changing structure of America's rural industries: agriculture, forestry, fishing, and mining?

Answer: Yes. The Centers afford the opportunity for both the research and Extension functions to coordinate research and transfer research findings on these rural industries.

Question: Do the rural development centers fit within the proposed definition of priority for Extension Service funding? If not, why not?

Answer: This will need to be determined mainly by the States as the definition of "assisting farm operators" is developed.

EXTENSION SERVICE

Question: What specific activities would be funded under the proposed definition for the Federal role in the Extension Service? What specific activities would be omitted? Please provide the Committee a breakdown in funding for each activity?

Answer: The specifics of an Extension program which uses Federal funds to address only the needs of farm operators would have to be for the most part determined by the States. Each would have to structure a program that fit the priorities of the operators in their area.

Question: Will the proposed funding reductions result in the withdrawal of Extension Service agents from any counties in the U.S.?

Answer: The staffing of Extension personnel at the State and local levels will be determined by each State. There will definitely be changes in the staffing structures that now exist.

Question: What effect will the cuts have on the 4-H program? Will this program be able to continue? At what funding level?

Answer: The 4-H program can be continued, however the States will have to provide the funding unless the program aspects fall within meeting the needs of farm operators.

RENEWABLE RESOURCE EXTENSION ACT

Question: The Renewable Resource Extension Act requires USDA to submit to Congress a five year plan. Last year the Extension Service stated the plan would be transmitted on July 1, 1985. It is now nearly nine months overdue. When will that plan be submitted to Congress?

Answer: We have requested OMB clearanace of the final draft of the plan. Upon receipt of the OMB clearance, we anticipate transmitting the Plan to the Congress in mid April.

Question: Will the plan be in draft or final form? If in draft form, why is it not being submitted in final form?

Answer: It is our intention that the plan will be transmitted in final form.

Question: What level of funding for RREA is being provided by the States?

Answer: Our best estimates are that the States are contributing 70 percent of the resources for RREA programs.

Question: Have these funds leveraged additional funding by the states? For what purposes have these funds been directed?

Answer: Additional funds are being provided by our Cooperators. This is evidenced by the estimated 573 FTE's of effort being placed on renewable resources education. Of this total, RREA funds approximately 50 FTE's. The fundamental purpose of renewable resources extension programs across the nation is to teach landowners how to identify and assess potential investment and income generating opportunities, train them in how to more profitably manage their enterprises and how to participate in the market place as informed sellers.

Question: Would the states be able to pursue current program levels without funding under RREA? What impact would the proposed reductions of Extension Service funds have on this program?

Answer: The States would probably not have the resources to sustain the current level of natural resources program activity without funding from RREA. The impact of the proposed Extension Service reductions of Smith-Lever funds would possibly result in the elimination of all but the highest priority natural resources program efforts geared to soil and water conservation.

Question: Are the funds presently adequate to meet the needs of the program as identified by the States?

Answer: The current level of funding for RREA programs provides the States with a total of approximately 50 staff years and the ability to leverage State, local and private sources of funding.

QUESTIONS SUBMITTED BY SENATOR BURDICK

HOME ECONOMICS

Question: The home economics component of the Extension Service in my state of North Dakota includes programs in wellness and nutrition that are very valuable. Would Federal funds be available for these programs to continue?

Answer: The FY87 budget proposal emphasizes that Federal funding of extension be used to meet the needs of farm operators as its top priority. The amount of Federal funds that will be made available for other activities such as wellness and nutrition programs will be determined by each State.

4-H and HOME ECONOMICS FUNDING

Question: Do you propose to eliminate funding for the 4-H, nutrition and home economics programs?

Answer: No. Funding for the 4-H, nutrition and home economics programs will be provided after needs of farm operators have been met or by the States.

HIGH PRIORITIES

Question: You indicate in your testimony, and Secretary Bentley in his, that increased emphasis will be given to providing assistance to farm families with their financial concerns, restoring profitability to American agriculture, and properly managing natural resources and rural development. However, I fail to see any increase in funding to support these goals. How do you propose to target these high priorities?

Answer: Each year, the States must submit to USDA-ES, for approval, their projections on how they plan to carry out their functions over the following year. It is through this Plan-of-Work system that we will be able to target these high priorities for increased emphasis in the future.

QUESTIONS SUBMITTED BY SENATOR STENNIS

FINANCIAL MANAGEMENT

Question: I notice in your Budget Justification for Fiscal Year 1987, you describe the success of the Farm Financial Management program in the following way:

> "A September 1985 national survey of State Extension Services indicated that 95,600 farm families received very intensive assistance through Extension programs during the past two years which aided them in revising their farm business and financial plans. This survey also indicated that another 260,000 farm families will need this type of financial assistance in the next 12 months."

With this type of assistance still needed in our ailing farm communities, how can you justify eliminating the assistance to farmers for Financial Management?

Answer: The program you refer to has been used by the Extension Service in FY85 and currently in FY86, to fund projects throughout the States dealing with the farm financial situation. Although these projects were geared to the Midwest initially, they are now available and are in almost all States. The proposed budget would eliminate the Federal earmarked program. However, over the past few years, the Cooperative Extension Service has redirected a great deal of its efforts for all resources to address this crisis. Even at the reduced Federal level, the system will still be assisting these farmers and families.

PRIORITIES

Question: In the President's Budget a 47 percent reduction is proposed for formula funded programs of the Extension Service. As I understand it, these programs include the 4-H program and the Home Economics program, both of which I have a good deal of knowledge about. With your stated priorities, I am not sure that these programs will get much attention or funding from the amount that remains.

In Mississippi, it is estimated that 10,000 students will not be able to participate in the 4-H program if the proposed reductions take effect. In many rural counties in Mississippi, Extension Homemakers Clubs provide the only educational network to families, and they would be severely affected by proposed reductions.

With your proposed budget, what priority is given to the 4-H program and the Extension Homemaking program?

Answer: The priority given to 4-H and Home Economics programs would have to be determined by each State. This depends on what aspects of these programs they would want to emphasize in dealing with their particular clientele. The FY87 budget proposes that Federal funding to Extension programs be used to meet the needs of farm operators as the top priority.

REDUCTIONS

Question: I have a personal knowledge about the Extension Programs and what they mean in Mississippi. These proposed reductions will be disastrous on my state and I am opposed to them.

Dr. Greenwood, as Administrator of the Extension Service, you have the opportunity to see the good that these programs are providing to people all over this nation. Do you favor these reductions?

Answer: Having been in Extension for a long time, I have worked at every level - local, State, and national and I have seen the good that Extension programs have done for the American public. However, it has been necessary to make hard choices if we are to control government spending and address the critical issue of mounting deficits. I truely believe that the system will be able to meet this challenge and continue to provide much needed high priority programs to its clientele as they have done for almost 75 years.

SUBCOMMITTEE RECESS

Senator COCHRAN. Our next hearing is going to be held on April 8. At that time we will hear from representatives from the Federal Crop Insurance Corporation and the Rural Electrification Administration. The hearing is adjourned.

[Whereupon, at 12 noon, Tuesday, March 25, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, April 8.]

MATERIAL SUBMITTED SUBSEQUENT TO THE HEARING

[CLERK'S NOTE.—Subsequent to the hearing, the following statements and accompanying letters were submitted for the record:]

STATEMENT OF HON. JAMES A. MCCLURE, U.S. SENATOR FROM IDAHO

Mr. Chairman, thank you for allowing me this time to address the committee and the panel of department representatives. I appreciate the chance to make a short statement and to ask a few questions of those present.

American agriculture, a modern, high-technology industry has achieved a remarkable record of productivity and efficiency. Production agriculture is the keystone of the U.S. food and agricultural system, earning over $150 billion each year. Agriculture is America's largest export industry, shipping overseas each year about $30 to $40 billion in goods and commodities, yielding an annual positive trade balance of from $10 to $20 billion.

The reason that American agriculture has lead the world so long in agriculture, not only providing inexpensive food for our citizens but humanitarian aid for starving people around the world, is because the United States has made a 120-year investment in agricultural research and development. This unique long-term commitment is unmatched by any other country. Knowledge through research and transferred by Extension is paramount in solving the many critical problems facing agriculture today.

I realize the critical importance of bringing the budget under control. One of the most important actions Congress can take to aid American agriculture is to bring the budget under control and reduce the deficit. I am in favor of bringing the budget under control and reducing the deficit. I am in favor of making reductions across the board also. Exempting one or two areas which make up a substantial amount of Federal outlays and forcing massive cuts in the remaining areas is not my idea of a fair way to reduce the deficit.

I am happy to see the increase in funding for the Agricultural Research Service; however, I am disappointed to find that the decrease in the buildings and facilities appropriation of $6,350,000 included the germplasm collection facility in Aberdeen, ID. I continue to press ARS to maintain funding for this needed project and to recognize the need to replace the antiquated facilities in Beltsville with a modern facility at Aberdeen. The grow-out facility at Aberdeen, the availability of low-cost land, and a more favorable climate make this location more favorable than Beltsville. In addition, the availability to the small grains growers and researchers is much better in the West. Grower association support remains strong for the building of the facility in Aberdeen.

I find it interesting that the ARS resistance to the Aberdeen facility has continued. It seems to me, Dr. Kinney, that given the need for the facility and the availability of funding you would not continue to resist this obviously needed facility.

I am happy to seen that the funding request for germplasm evaluation has been increased from $2,693,000 to $4,193,000. It is important to broaden the germplasm resources to ensure maximum genetic diversity for improved productivity. Given this emphasis on germplasm enhancement it seems clear that ARS would want a new germplasm facility such as the one proposed for Aberdeen. Expanded capacity in the program will call for expanded capacity for storage. As was stated in your budget request it is necessary to acquire, maintain, evaluate, and make readily accessible to plant breeders and other scientists as wide as possible a range of genetic germplasm. A modern germplasm facility in Aberdeen would enhance this increased emphasis on germplasm evaluation.

I would like to turn to another issue of great importance to Idaho, the tristate breeding program for potato varietal development. Two months ago my staff requested by phone a complete financial program justification for the program, listing the applications and expenditures relating to this program. To date this information had not been received.

In addition to the normal potato varietal development research which is ongoing, another problem has arisen, that of dark end in potatoes. It appears that the Pacific Northwest will need additional funds for research on this problem. Research facilities are available at the Aberdeen, ID, station but additional funding is necessary.

I would like to address another issue with Dr. Kinney, that being the sad state of the U.S. sheep experiment station in Dubois, ID. Last summer, it was brought to my attention that the facility was in need of additional funds for upkeep and maintenance, new facilities, and additional permanent and irregular labor to expedite research at the facility. Most of all, I was appalled that the ARS would allow the use of machinery and equipment which is in such deplorable shape. It is a sad testament to the priorities which ARS places on sheep research. I have several pictures here of the equipment which ARS expects their employees to use to feed and protect over 6,000 head of sheep. Frankly, I am amazed that this machinery continues to run, it is a testament to the tenacity of those who work in the Dubois sheep station that this machinery works at all. I urge ARS to complete an immediate review of the machinery and equipment currently being used at Dubois and submit to this subcommittee their report as to the safety and reliability of this equipment. If this equipment does not meet minimum safety and reliability standards I fully expect ARS to submit a request for replacement in this year.

Dr. Kinney, the recently implemented 4.3 percent reduction in the ARS budget which resulted from the Gramm-Rudman-Hollings deficit reduction law, had a disproportionate effect on the ability of many ARS researchers to conduct their research. Since the budgets of many ARS research programs are primarily devoted to personnel and I understand that personnel cuts were not allowed, the net effect in many cases were severe reductions in operating budgets, ranging from 10 to 50 percent. It is my understanding that at the Aberdeen, ID, Research and Extension Center, for example, the Gramm-Rudman-Hollings cut resulted in a reduction of about 25 percent in the operating budgets of its ARS researchers.

If a fiscal year 1987 budget at least equal to the administration's proposal is approved, overall funding for the ARS will be restored to a pre-March 1 level, with an additional $13 million increase.

Dr. Kinney, I'm sure you are aware that barley is an important crop in Idaho and in the United States. In 1985, total U.S. barley production was 589 million bushels, with an estimated value of $1.3 billion. In Idaho, which ranked second in 1985 production, at 72 million bushels, meant $160 million to the State.

In order for barley to remain a competitive crop in Idaho and the United States, it is critical that new barley varieties be developed that provide higher returns to growers and improved quality to meet the needs of domestic and export markets.

I would like to address the funding requests in the Department's proposal for the Cooperative State Research Service. I am dismayed that special research grants are eliminated along with animal health and disease research programs authorized by section 1433 of Public Law 95-133. These programs are very important to the agriculture interests in the Pacific Northwest. I oppose elimination of the soil erosion in the Pacific Northwest [STEEP], animal health research, TCK smut in wheat, potato research, rangeland research grants, alcohol fuels, and higher education grants and funding. These programs are vital to the Pacific Northwest.

I am greatly concerned that the budget cuts recommended by the administration for Extension Service will undermine the entire program of research and technology transfer to those who can most use it, the farmer. In addition, I am very concerned to note the recommended decrease in funding for 4-H programs. Idaho needs these types of hands-on programs for its rural youth. Last summer, I was visiting Three Creek, ID, a small rural community in southern Idaho. There are two big events in this community, graduation from the one-room school in the spring and Demonstration Day in August where the 4-H'ers show their projects before taking them to the fair. These rural youth need the information, experience, and education gained through 4-H. It is shortsighted for the Federal Government to continue to cut worthwhile programs such as 4-H and leave untouched programs to city youth. I urge the administration to reconsider its budget request in this area.

STATEMENT OF HON. QUENTIN N. BURDICK, U.S. SENATOR FROM NORTH DAKOTA

Mr. Secretary, Dr. Kinney, Dr. Jordan, and Dr. Greenwood, thank you for appearing before the subcommittee today to discuss the proposed budget for fiscal year 1987 as it relates to agricultural research and extension.

While I am pleased that the budget contains some increases for research, I am, of course, very concerned about the cuts in the Extension Service. It would seem to me that the two programs go hand-in-hand. The Extension Service is needed in order to disseminate the advances and achievements made through the research. I know because I am receiving hundreds of letters from constituents in North Dakota who are upset by the proposed cuts in Extension.

Farmers in my State are very familiar with the Extension programs. They know the county extension agent, the county extension home economist, and they use the service because it is very accessible. I want you to know that this proposed cut is not being received with open arms.

Mr. Chairman, with your permission, I would like to enter several of these letters from my constituents in the record. They are exemplary of the comments I am receiving on the proposal to cut Extension funding.

In addition, I am concerned by some of the cuts proposed for agricultural research. Specifically, the elimination of the Special Research Grants through the Cooperative State Research Service concerns me. This administration seems to think that it can reduce or eliminate many programs, and if they are important enough, the States will pick up the cost.

That simply is not true and it is not possible. Many of these research projects are midway through a several-year plan. To cut them off in the middle is highly irresponsible and would lead to no benefits for the money already spent.

I hope that you will rethink some of these recommendations so that we can arrive at a budget that does not contain the severe cuts proposed in some of these programs.

LETTER FROM MONTELLE N. BOONE

GRAFTON, ND,
March 10, 1986.

Senator BURDICK,
Senate Office Building,
Washington, DC.

DEAR SIR: I am writing to you to express my concern over the possible loss of some of the funding that is the lifeblood of our Cooperative Extension Service. This is a matter of great concern to this writer, who has 63 years of dirt farming behind him in Walsh County, ND, and should know something about the value of the information that has its source in the county Cooperative Extension Service.

This service is a valuable link between research and the farmer. We look to them for advice, whether it may be in the area of recommended varieties of field crops, the proper application of agricultural chemicals, or the economics of some phase of this business of raising food and fiber for a large portion of the world's population. Their advice is the result of research that has been thoroughly tested. It is impartial. They have no ax to grind, and we have learned that we can *depend* on that. We would be lost without their being at our elbow ready and willing to give us accurate and truthful answers to any of the many questions that arise in our everyday farming efforts.

Last but not least, the Cooperative Extension Service was in the lead in guiding us during the organization of R.E.A. about 45 years ago, and in assisting us with the development and organization of our Rural Water System in more recent years. We measure their worth whenever we turn on a light or open a faucet for a glass of water—and that's pretty often.

Don't cut out our right-hand man or throttle the Cooperative Extension Service in the interests of saving a few dollars. This would be false economy. The largest business in the U.S.A. needs them. It's up to YOU to see that this comes to pass.

Sincerely,

MONTELLE N. BOONE.

LETTER FROM DON KIRBY, PRESIDENT, NORTH DAKOTA CHAPTER, SOCIETY FOR RANGE MANAGEMENT

MARCH 11, 1986.

Senator QUENTIN N. BURDICK,
Hart Building,
Washington, DC.

DEAR SENATOR BURDICK: This letter is in regard to the North Dakota Extension Service. The society I represent respectfully requests your support for Extension in the upcoming budget negotiations.

As you are aware the Cooperative Extension's major roles in today's rural economy are in the areas of crop and livestock management, financial and family stress management, nutrition and health, and youth programs, especially 4-H. Budget cuts would reduce the Extension Service's ability to provide the services requested and needed by our rural communities. This Nation has been blessed with a strong farming-ranching base and will need to maintain this base for our future well-being. We are and will continue to be a bread basket for the world and need to maintain and develop conservation practices, strong minds and bodies, and enterprising, hard-working youth. The Cooperative Extension Service has been and continues to be the leader in achieving these goals.

Your support for agriculture research, extension, and education is well known in the State. We call on you again to support agriculture by maintaining the Cooperative Extension Service and the numerous roles they serve in rural communities.

If further information is needed, I'd be most happy to respond.

Sincerely,

DON KIRBY.

LETTER FROM ANNA SEBASTIAN, PRESIDENT, NORTH DAKOTA EXTENSION HOMEMAKERS' COUNCIL, INC.

MARCH 17, 1986.

Senator QUENTIN BURDICK,
U.S. Senate,
Washington, DC.

DEAR SENATOR BURDICK: My concern at this time deals with the President's proposed budget for fiscal year 1987, especially in the area of Extension Services.

Being an Extension Homemaker for 26 years and in the 4-H program for 30 years, of which both programs receive considerable aid from Extension Service, I feel a budget cut in this area would be very untimely.

Extension Homemakers 50 years ago was teaching cooking, canning, and sewing. These areas are still reached with "now" programs such as microwave cooking, safer canning methods to surger sewing, but Extension Homemakers today have also expanded their programs to include concerns of the eighties. These concerns include the following:

Health—healthy mothers, healthy babies, farm and family stress
Environment—water or air pollution, energy

Safety—in the home, on the farm, on the highways (seatbelts, DUI)
Citizenship—becoming involved in community and State issues
Family living—dealing with conflict, death, aging, child development.

Extension Homemakers, be it rural or urban, are the backbone of our country, not necessarily the hard manual labor, but the communication link that helps Americans cope with problems of today. The Extension Service is the professional help needed to carry on, improve, and expand program concerns of the eighties.

4-H is an area where the importance to our youth can't be measured. The fact that all youth are given the opportunity to participate and succeed in areas that aren't taught at home or in schools is so important. They learn communication skills through the speech, demonstration, and judging programs. They gain social experiences through the camps, conferences, seminars, and exchanges. When I think of what 4-H has done for me, my children, and the many 4-H'ers across North Dakota and the United States, I swell with pride. I don't feel there is any better program to develop our youth, for they will be our future. The Extension Service is the basis for the 4-H program.

I know you have always been supportive of the Extension Service. We, the North Dakota Extension Homemakers, thank you and hope you will continue this support.

Sincerely,

ANNA SEBASTIAN.

LETTER FROM PASTOR JERRY ERICKSON

MARCH 4, 1986.

Hon. QUENTIN R. BURDICK,
U.S. Senator,
Washington, DC.

DEAR SENATOR BURDICK: I understand that among the agencies being considered for budget cuts is the county extension service. If these budget cuts should result in the elimination of the county agent or the county home economist, I feel that our county would be severely hurt.

As you may be aware, Slope County was designated as the county with the 13th worst hunger/poverty problem in the Nation. And yet when reporters come here and try to put together a story they cannot figure out why so few people are on food stamps. They begin to think that someone misread the IRS forms and that poverty doesn't exist here.

Well, poverty does exist here. People are having a very hard time of it. Pride is probably a large part of the reason that so few are on food stamps. But beyond that, I believe, is the resourcefulness that people have gained through Extension Service programs. People have learned how to make do—to get by without cash outlays. This is true in livestock production, crop production, gardening, and in homemaking. I believe that to remove the county extension services in any way would seriously hamper this resourcefulness. I hope that you will do all that you can to protect this much-needed resource in our county.

Thank you.

Sincerely,

PASTOR JERRY ERICKSON.

LETTER FROM JENNETTE DITTMAN, PH.D., ASSOCIATE PROFESSOR, NORTH DAKOTA STATE UNIVERSITY

FEBRUARY 28, 1986.

Senator QUENTIN BURDICK,
Senate Hart Office Building,
Washington, DC.

DEAR SENATOR BURDICK: Thank you for your past support for home economics. I am very concerned about the administration's proposed budget for fiscal year 1987 that proposes a massive cut of 60 percent in Federal funding for the USDA Extension Service. Also proposed is the targeting of future Extension dollars for use *solely* in enhancing farm profitability and for conservation of soil and water. The budget specifically states that it is neither "necessary or appropriate" to use Federal dollars for "non-farm services" that are described as "consisting of cooking, sewing, upholstery, quilting, and other activities."

These kinds of statements are very disturbing for those making them cannot be aware of the nature and range of Extension Service activities. The Cooperative Extension provides services for the entire family with the major focus being on rural families. A high percentage of rural families are at the present time in a state of economic crisis. Specific Extension programs which have been of great assistance to these families in the past and are critical for their survival in the future are those for example on farm management, energy and resource conservation, family and individual stress, family communication, suicide, nutrition, wellness, parenting education, and consumer education. These are but a few of the programs with which I am aware and there are many more.

Another aspect of the Extension Service which I highly respect is the opportunity for thousands of youth and adults to develop leadership skills through the various Extension clubs and organizations. Under the leadership and direction of the State and county Extension staff, these groups of volunteers have opportunities to develop organizational, interaction, and leadership skills which in turn they use within their own lives and the community. They are better able to take charge and direct their lives. In addition, input is constantly sought by the Extension staff from this network of volunteers so that the programs developed and carried out do in fact respond to their needs, interests, and concerns.

As a faculty member at a land grant university I also know of the important role the Extension Service plays as a communication link between the research and development at the university and the citizens of North Dakota. This extensive network for information dissemination and gathering is found in every State through the Extension Service.

I greatly appreciate your serious consideration of these issues and urge you to oppose these proposed cuts in the Extension Service.

Sincerely,

JENNETTE DITTMAN, PH.D.

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

TUESDAY, APRIL 8, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2 p.m. in room SD–124, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, Abdnor, Kasten, Mattingly, Stennis, Burdick, Sasser, Bumpers, and Harkin.

DEPARTMENT OF AGRICULTURE

FEDERAL CROP INSURANCE CORPORATION

STATEMENTS OF:

FRANK W. NAYLOR, JR., UNDER SECRETARY, SMALL COMMUNITY AND RURAL DEVELOPMENT, DEPARTMENT OF AGRICULTURE

MERRITT W. SPRAGUE, MANAGER, FEDERAL CROP INSURANCE CORPORATION

OPENING REMARKS

Senator COCHRAN. The subcommittee will please come to order.

Today, we have officials from the Department of Agriculture representing the Federal Crop Insurance Corporation and the Rural Electrification Administration. We are reviewing the budget requests of the administration for the operation of these agencies for the next fiscal year. We welcome to the subcommittee Under Secretary for Small Community and Rural Development, Frank W. Naylor, Jr.; Merritt W. Sprague, Manager, Federal Crop Insurance Corporation; and Harold V. Hunter, Administrator, Rural Electrification Administration. Bob Sherman is here representing the USDA Budget Office.

Since enactment of the Federal Crop Insurance Act of 1980, a substantial effort has been made to involve private industry in the delivery of crop insurance to farmers. Currently, reinsured companies account for about three-fourths of crop insurance sales, and the remaining one-fourth is delivered by private agents through sales and service agreements.

The 1987 budget proposes more emphasis on the private sector in this insurance program, with a suggestion that the Government's role be phased out over the next 5 years. Under current law, the Government pays all administrative and operating expenses and about 25 percent of premium rates.

Under legislation which has been proposed, Government costs would be reduced by one-third in 1987 and eliminated by 1991.

The Rural Electrification Administration makes direct loans, and also guarantees loans which are made primarily by the Federal Financing Bank. For fiscal year 1987, the budget proposes that the rural electrification and telephone programs will be phased out by 1990 and will be reduced from $2 billion in 1986 to $800 million in 1987.

Legislation is being proposed by the administration to increase the interest rate on direct loans from 5 percent to the cost of Treasury borrowing plus 1¹/₈ percent and restrict available assistance to financially weak borrowers.

REA will also assess a 5-percent user fee on direct loans to replace appropriated funds for its salaries and expenses.

We appreciate the witnesses being here today in response to our invitation to discuss these budget proposals. I would like to call on the distinguished ranking minority member of the subcommittee for any comments or statement that he might have before we proceed to hear from the witnesses who have come to the hearing.

Senator Burdick.

Senator BURDICK. In the interest of time, I would like to defer my questions until after the panel has a chance to testify.

Senator COCHRAN. Fine.

Senator Stennis.

Senator STENNIS. Thank you, Mr. Chairman. I will follow Senator Burdick.

Senator COCHRAN. Senator Mattingly.

FISCAL YEAR 1986 BUDGET DEBATE

Senator MATTINGLY. Thank you, Mr. Chairman.

I just want to say that I assume everybody is in happy spirits after returning from the Easter recess. I will spare you a lengthy statement. I would like to put mine in for the record, but I think that I would just like to note for the record that I think we find ourselves today facing some of the same specific program areas which were the topic of extensive negotiations during the last year's budget debate. I think in the end, we were all sort of led to believe that the issues had been resolved in the form of the 3-year compromise. I suggest that maybe we hate to reinvent the wheel once again, but hopefully, we will do it and accomplish it properly this time.

Thank you very much, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

Senator MATTINGLY. I will be having some questions for the record, Mr. Chairman.

Senator COCHRAN. Without objection, the statement will be placed in the record, and any questions which Senators are not able to submit to the witnesses at this time can be submitted for the record. We know they will respond to them as quickly and expeditiously as they can.

[The statement follows:]

STATEMENT OF SENATOR MATTINGLY

I am glad to see that all of our colleagues not only survived the Easter work period, but many also seem to be in improved spirits as we prepare for the tough budget and appropriations decisions ahead of us in the next weeks and months. I join you in welcoming these witnesses here today to hear their testimony on Federal crop insurance and on the Rural Electrification Administration programs.

I will not take time with a lengthy statement, Mr. Chairman. I would note for the record, however, that we find ourselves today faced with two specific program areas which were the topics of intensive negotiations during last year's budget debates. In the end, I was led to believe that the issues had been resolved in the form of a 3-year compromise. Apparently, the administration now wants to ignore that deal and go back to square one in the struggle. I suggest that this will be an interesting budget process, not just because of the many challenges which face us with the deficit, but also because it will be especially hard for many of us to deal with those who choose not to bargain in good faith.

I do have several questions which I will ask be submitted for the record to be answered in writing by the witnesses in a timely fashion. Thank you, Mr. Chairman.

COMMENTS BY MR. NAYLOR

Senator COCHRAN. Secretary Naylor, we would invite you to make any kind of opening statement that you have, or a presentation to the committee at this time, before we hear from the others who are here with you today.

Mr. NAYLOR. Thank you, Mr. Chairman. We appreciate, as always, the opportunity to appear before and work with your committee as we work through the budgetary process for the coming fiscal year.

I have no opening comments but have with me today the administrators of the Federal Crop Insurance Corporation and the Rural Electrification Administration. They do have prepared statements, and if I may at this point, Mr. Chairman, I would defer to Mr. Sprague, who I believe is the first agency on your schedule for review this afternoon, for opening comments.

PREPARED STATEMENT

Senator COCHRAN. That is correct. We would invite Mr. Sprague, who is Manager of the Federal Crop Insurance Corporation, to make any statement or comments. We have a written statement which we appreciate very much your submitting to the committee. It will be included in the record at this point in full, and we would invite you to summarize that statement and make whatever highlights or comments within the highlights of that statement as you care to make at this time.

[The statement follows:]

STATEMENT OF MERRITT W. SPRAGUE

It is my pleasure to appear before this Subcommittee to present the 1987 Budget for the Federal Crop Insurance Corporation.

The Federal Crop Insurance Corporation is submitting for fiscal year 1987 budget proposals under proposed legislation and under existing legislation.

Under proposed legislation, Federal costs for administrative expenses and for premium subsidy will be phased out over a five-year period beginning in 1987. Under existing legislation, Federal funding would continue to cover the administrative and premium subsidy expenses of the program.

Under both proposals, program participation is estimated to increase from 48.4 million acres in 1985 to 58.6 million acres in 1986, and to 68.6 million acres in 1987.

I will discuss in detail the budget request under existing legislation.

Fiscal Year 1987 Budget Request

Our budget request for fiscal year 1987 under existing legislation is as follows:

> $239,885,000 for Administrative and Operating Expenses to fund the expanded crop insurance program. About $184.6 million of this amount will be required for reinsurance agreements with private commercial insurance companies, and approximately $3.4 million for commissions paid under Agency Sales and Service Agreements and loss adjustment costs related to direct writing of crop insurance. Also included in the request is $4.3 million to be reimbursed to ASCS. These amounts total $192.3 million, and account for over 80 percent of the Corporation's total request for administrative expenses.
>
> $124,034,000 for premium subsidy for the 1986 crop year. This amount represents 30 percent of the expected premium, up to the 65 percent level of coverage, as authorized by the Federal Crop Insurance Act, as amended in 1980.
>
> The $124 million would provide for maximum expansion of the crop

insurance program to an estimated 58.6 million insured acres in crop year 1986.

Also included is a request for $11.7 million to reimburse the FCIC Fund for interest paid on Treasury borrowing incurred during prior years, but not previously reimbursed.

This represents a total budget request for fiscal year 1987 of $375,628,000 for on-going programs. The total for fiscal year 1987 is $22,412,000 more than the total request for 1986 appropriations for on-going programs.

Administrative and Operating Expenses

The appropriation request for Administrative and Operating Expenses for fiscal year 1987 will allow the Corporation to continue expansion of the crop insurance program. Resources are requested to expand insurance coverage from the crop year 1985 level of 48.4 million insured acres to 58.6 million insured acres in crop year 1986, and to 68.6 million insured acres in crop year 1987.

The major portion of the budget will be used to support private sector delivery systems. Two basic forms of delivery are currently in place: reinsured companies, which provide all of the fundamental insurance services and share underwriting gains and losses; and Agency Sales and Service Contractors who sell and service crop insurance written on FCIC paper.

Of the amount requested for Administrative and Operating Expenses, over $188 million will be used for reinsurance administrative expense, loss adjustment costs, and contractor commissions. About $4.3 million is included as reimbursement to ASCS. The remaining $47.6 million will be used for the expenses of the Federal Crop Insurance Corporation to maintain field actuarial offices, field operations offices, field staff, Kansas City Operations offices, which includes computer support, and the Headquarters staff.

In total, our fiscal year 1987 request for Administrative and Operating Expenses represents an increase of $21.0 million over the fiscal year 1986 appropriations.

Premium Subsidy

The fiscal year 1987 appropriation request of $124,034,000 for premium subsidies represents a decrease of $10,156,000 from the fiscal year 1986 appropriation. This decrease reflects revised estimates of premium levels in crop years 1985 and 1986. However, the crop year 1986 premium of $500.3 million, to which this request bears a direct relationship, will be $60 million higher than crop year 1985.

Reimbursement for Prior Year Costs

The Federal Crop Insurance Act also provides for reimbursement to the Corporation for interest expenses incurred during prior years, but not previously reimbursed.

In fiscal years 1985 and 1986, the Corporation will use $11,709,000 from premium income to pay interest expenses and is requesting an appropriation for restoration in fiscal year 1987.

F.Y. 1987 Budget Request - Proposed Legislation

As I have indicated, the Corporation is also submitting a fiscal year 1987 budget request under proposed legislation.

Under this proposed budget, the crop year 1987 program levels of $585.6 million premium and 68.6 million insured acres are the same as those under existing legislation. The method of funding the crop insurance program, however, is not the same.

Legislation will be proposed to increase the producer's share of premium cost in order to phase out Federal payment of administrative expenses and premium subsidy. The 1987 appropriation request reflects the first year of a five-year phase-out of all Federal operating subsidies. The objective is for the Corporation to become fully privatized by 1991.

Administrative and Operating Expenses total $125,026,000 by direct appropriation. The balance required of $114,859,000 will be paid from premium income.

Federal premium subsidy of $103,338,000 will be required for 1987 under this proposal. This amount assumes the producer's share of the premium cost will be increased beginning in fiscal year 1987.

There is no change under proposed legislation for reimbursement of prior years' interest cost of $11,709,000.

I would now like to review our accomplishments for the past year, and discuss our current plans and projections.

Crop Year 1985 Experience

Federal Crop Insurance is intended to become the primary form of Federal disaster protection for farmers, and eventually replace the many overlapping farm disaster programs. Since enactment of the new legislation in 1980, insurance has expanded from 1,676 counties to over 3,000 counties. County programs have increased almost 300 percent, from 4,629 in 1980 to 18,892 in 1985. Thus, crop insurance is now available in all agricultural counties on the acreage previously covered by disaster payments.

Acres insured, insurance in force, and premium have also increased substantially. In 1980, acres insured were 26.6 million compared with 48 million for the 1985 crop year. Insurance in force has also increased for the same period, from $3 billion in 1980 to over $7 billion in 1985. Premium has increased from $158 million in 1980 to over $440 million in 1985.

The current estimates of crop year 1985 experience for the combined efforts of the public and private sector show total premium amounting to over $443 million, and total indemnities of over $686 million, for a combined loss ratio of 1.55. While premium levels in 1985 were approximately the same as 1984, insured acreage increased by approximately 6 million as a result of producers shifting from the higher cost 75% coverage level to the 65% level.

Based on earlier reports, the budget submission for the crop year 1985 insurance operations reflects premiums for the reinsurance share at $322 million, and indemnities at $483 million, for a loss ratio of 1.50, with the remaining premiums of $118 million handled by master marketers. The indemnities are estimated at $177 million, which also results in a loss ratio of 1.50. However, current estimates show premiums for reinsurance operations at $325 million with indemnities at $471.3 million, for a loss ratio of 1.45, and $118 million in premiums handled by Sales and Service Contractors with indemnities currently estimated at $215.3 million, which results in a loss ratio of 1.82.

There have been several program and administrative changes for crop year 1985 made by the Corporation which should improve the crop insurance program.

Analysis and preparation for expansion in 204 additional county programs was conducted.

Implemented the Actual Production History (APH) Program for individualized coverage on tobacco, peanuts, cotton, and rice.

Eighty percent of the Operations Automation Study initiated in 1984 was completed in F.Y. 1985. This includes the development of operations procedure and computer system design programming, training, and first phase of operations implementation. Feasibility of the system was demonstrated and is now under consideration for full scale implementation.

Significant progress was made in updating the Actuarial Data Base.

Recommendations made by the actuarial consultant, Milliman and Robertson are being implemented.

A compliance review system of commercial insurance companies reinsured by FCIC was designed and is in the process of implementation.

A revised Agency Sales and Service Agreement for Master Marketers was signed, effective through September 30, 1986.

Significant achievements were made in automating office information systems, establishing microcomputer use, and telecommunications.

Efficiency was increased by realigning FCIC districts by premium income.

A formal Washington, D.C. level appeal process was established.

Crop Year 1986 Projections

The fiscal year 1986 appropriations have permitted the Corporation to continue to expand the Federal Crop Insurance Program. In crop year 1986, insurance is offered on 42 major crops, on 19,053 county programs in 49 states and is available in virtually every agricultural county in the United States. Canning peaches and prunes have been approved as new crops to be insured for the 1986 crop year. Total insured acres are estimated at 58.6 million for the current crop year, and premium is expected to be about $500 million.

The Corporation has also made several program and administrative changes for crop year 1986 which should improve the crop insurance program.

Implemented Actual Production History (APH) Program for individualized coverage for all remaining crops.

Established a data base, data base management system, and analytical systems to support a computerized ratemaking system.

Refined procedures and follow-up systems for 30 day document processing.

Developed a financial information reporting system on performance data for commercial companies having reinsurance contracts with FCIC.

Reviewed the risk-sharing and reimbursement options for the 1987 Reinsurance Agreement.

Implemented a tracking system for updates and resolution of investigations, audits, and whistleblower cases.

Reviewed the flow of cash from insureds through Sales and Service Contractors to FCIC.

Established a program with a collection agency to enhance debt collection.

Reviewed the Sales and Service Contractors' operations to assure compliance with the Agency Sales and Service Agreement.

Exhibits

I would like to have two exhibits inserted in the record. The first exhibit is a revised table of the 1985 crop year experience, by commodity, as of February 1986, and reflects the changes that have taken place since the submission of the President's Budget.

The second exhibit shows loss ratios during the 38 years of our existence. The crop insurance program has had 18 years in which premiums have exceeded indemnities and 20 years in which the reverse has been true. The 38-year loss ratio is 1.31.

This concludes my statement. We will be glad to answer any questions or furnish any additional information you may desire.

ESTIMATED CROP INSURANCE EXPERIENCE - 1985
As of February 1986

EXHIBIT I

ALL PROGRAMS
(Dollars in Thousands)

	Amount of Premium			Amount of Indemnities			Loss Ratio		
	Government Operations	Reinsurance Operations	Total	Government Operations	Reinsurance Operations	Total	Government Operations	Reinsurance Operations	Combined
Wheat	29,216	61,140	90,356	85,607	150,450	236,056	2.93	2.46	2.61
Cotton	3,025	17,103	20,128	1,855	8,592	10,447	0.61	0.50	0.52
Combined Crop	346	0	346	212	0	212	0.61	0.00	0.61
Tobacco	8,240	9,995	18,235	5,523	6,424	11,946	0.67	0.64	0.66
Corn	25,191	88,902	114,094	17,208	45,599	62,806	0.68	0.51	0.55
Flax	150	312	462	199	364	563	1.33	1.16	1.22
Bean	824	3,090	3,914	1,965	6,792	8,757	2.39	2.20	2.24
Citrus	1,565	1,022	2,587	5,382	4,907	10,289	3.44	4.80	3.98
Soybean	25,167	66,731	91,897	37,016	112,203	149,219	1.47	1.68	1.62
Barley	5,038	11,206	16,245	19,933	54,897	74,830	3.96	4.90	4.61
Peach	713	1,082	1,795	1,923	3,130	5,054	2.70	2.89	2.82
Grain Sorghum	3,591	11,320	14,911	6,642	17,973	24,615	1.85	1.59	1.65
Oat	537	823	1,360	963	1,182	2,145	1.79	1.44	1.58
Rice	299	835	1,134	960	2,537	3,497	3.21	3.04	3.09
Raisin	260	9,179	9,439	172	740	911	0.66	0.08	0.10
Pea, Green & Dry	304	610	915	194	730	924	0.64	1.20	1.01
Peanut	5,447	10,087	15,533	7,272	8,514	15,786	1.34	0.84	1.02
Potato	1,537	1,996	3,533	2,589	6,732	9,321	1.68	3.37	2.64
Apple	813	968	1,780	2,537	2,430	4,967	3.12	2.51	2.79
Cherry	*	*	*	*	*	*	*	*	*
Tomato	131	3,175	3,306	230	2,096	2,326	1.75	0.66	0.70
Safflower	*	*	*	*	*	*	*	*	*
Sugar Beet	612	1,325	1,937	681	1,094	1,776	1.11	0.83	0.92
Tung Nut	*	*	*	*	*	*	*	*	*
Grape	286	1,779	2,065	383	1,209	1,592	1.34	0.68	0.77
Sugarcane	99	743	842	83	0	83	0.84	0.00	0.10
Puerto Rico Reins	0	2,101	2,101	0	2,096	2,096	*	1.00	1.00
Sunflower	1,429	3,560	4,990	6,310	12,540	18,850	4.41	3.52	3.78
Forage Seeding	2	4	6	1	1	3	0.53	0.28	0.39
Sweet Corn	62	248	310	87	195	283	1.40	0.79	0.91
Forage Production	2	4	6	1	13	14	0.37	3.32	2.23
Rye	9	9	18	14	4	18	1.53	0.49	1.01
Almond	357	3,140	3,497	167	3,583	3,750	0.47	1.14	1.07
Prev Planting	1	0	1	3	0	3	1.95	0.00	1.95
Hybrid Seed	1,077	9,164	10,241	874	5,685	6,559	0.81	0.62	0.64
Citrus Tree	6	287	293	0	192	192	0.00	0.67	0.65
Table Grape	52	1,441	1,493	111	2,206	2,317	2.16	1.53	1.55
Pepper	163	265	428	455	1,040	1,495	2.79	3.92	3.49
Popcorn	55	336	391	117	696	813	2.14	2.07	2.08
Tomato, Fresh	1,336	595	1,931	7,624	4,096	11,720	5.71	6.88	6.07
Walnut	11	87	98	6	1	7	0.48	0.01	0.07
Cotton, ELS	37	45	82	0	0	0	0.00	0.00	0.00
Cranberry	0	185	185	0	39	39	0.00	0.21	0.21
Sweet Corn, Fresh	7	104	111	1	319	321	0.20	3.07	2.88
ALL PROGRAMS	118,000	325,000	443,000	215,300	471,300	686,600	1.82	1.45	1.55

* No Program.

United States Department of Agriculture

EXHIBIT II

FEDERAL CROP INSURANCE CORPORATION

L O S S R A T I O S - BY CROP YEAR

PROGRAM	GOVERNMENT OPERATIONS							REINSURANCE OPERATIONS						TOTAL INSURANCE OPERATIONS						
	1948-80	1981	1982	1983	1984	1985	1948-85	1981	1982	1983	1984	1985	1981-85	1948-80	1981	1982	1983	1984	1985	1948-85
Wheat	1.05	0.97	0.92	1.02	1.56	2.93	1.13	0.79	0.75	0.67	1.63	2.46	1.66	1.05	0.97	0.88	0.89	1.60	2.61	1.22
Cotton	1.57	1.11	1.80	1.66	0.93	0.61	1.51	1.36	2.38	1.83	1.77	0.50	1.43	1.57	1.11	1.88	1.72	1.62	0.52	1.49
Combined Crop	1.18	0.17	0.32	0.62	0.10	0.61	1.12	0.00	0.00	0.00	0.00	0.00	0.00	1.18	0.17	0.32	0.62	0.10	0.61	1.12
Tobacco	1.04	0.99	1.05	3.24	0.48	0.67	1.13	1.58	0.77	2.29	0.50	0.64	0.97	1.04	0.89	0.99	2.97	0.49	0.66	1.12
Corn	1.08	0.59	0.52	2.84	0.96	0.68	0.99	0.38	0.53	2.65	0.85	0.51	0.81	1.08	0.58	0.52	2.76	0.89	0.55	0.94
Flax	0.89	0.90	1.20	0.80	0.79	1.33	0.90	0.00	1.28	1.04	0.84	1.16	1.09	0.89	0.89	1.22	0.88	0.81	1.22	0.91
Bean	0.92	1.01	2.96	1.18	1.00	2.39	1.36	0.11	3.04	1.46	1.06	2.20	1.91	0.92	1.01	2.98	1.35	1.04	2.24	1.52
Citrus	1.40	2.23	0.05	0.00	2.38	3.44	1.48	0.00	0.32	0.00	3.98	4.80	3.67	1.40	2.23	0.08	0.00	2.69	3.98	1.56
Soybean	0.89	1.82	2.12	2.69	1.82	1.47	1.73	0.68	1.17	1.83	1.94	1.68	1.74	0.89	1.80	2.01	2.51	1.88	1.62	1.73
Barley	0.95	0.82	0.68	0.89	1.90	3.96	1.25	0.71	0.46	0.79	2.28	4.90	3.14	0.95	0.82	0.62	0.85	2.11	4.61	1.80
Peach	1.25	0.35	4.16	2.75	1.22	2.70	1.48	0.00	2.28	3.31	0.57	2.89	2.20	1.25	0.35	3.59	3.02	0.87	2.82	1.62
Grain Sorghum	1.05	0.93	1.23	2.31	2.61	1.85	1.30	0.97	0.96	1.72	2.42	1.59	1.81	1.05	0.93	1.15	2.00	2.48	1.65	1.48
Oat	0.85	1.39	0.61	0.80	1.08	1.79	0.95	1.94	0.54	0.71	1.40	1.44	1.14	0.85	1.42	0.59	0.77	1.23	1.58	0.97
Rice	1.47	1.86	3.38	5.33	1.48	3.21	2.63	0.00	1.54	3.79	1.60	3.04	2.49	1.47	1.86	3.35	5.26	1.54	3.09	2.61
Raisin	1.01	0.00	6.28	0.91	0.14	0.66	1.96	0.00	0.00	1.27	0.50	0.08	0.74	1.01	0.00	6.28	1.19	0.45	0.10	1.27
Pea	1.29	0.68	0.73	0.94	1.12	0.64	1.16	0.00	0.32	0.95	0.71	1.20	0.99	1.28	0.68	0.69	0.95	0.91	1.01	1.14
Peanut	1.35	0.62	0.79	2.95	0.86	1.34	1.28	0.00	0.86	3.44	0.79	0.84	1.20	1.35	0.62	0.80	3.07	0.83	1.02	1.27
Potato	2.06	1.36	2.07	2.83	3.17	1.68	2.27	0.00	0.95	2.67	2.09	3.37	2.78	2.06	1.36	1.30	2.77	2.61	2.64	2.49
Apple	1.27	1.54	1.56	1.76	1.05	3.12	1.47	0.00	2.24	0.22	2.68	2.51	2.39	1.27	1.54	1.64	1.51	1.62	2.79	1.59
Cherry	2.61						2.61							2.61						2.61
Tomato	0.75	0.40	2.62	1.11	2.17	1.75	1.49	0.00	0.16	1.45	1.01	0.66	0.95	0.75	0.40	2.56	1.40	1.04	0.70	1.07
Safflower	2.50						2.50							2.50						2.50
Sugar Beet	0.78	0.59	0.52	0.75	0.68	1.11	0.74	0.10	0.19	0.81	0.73	0.83	0.64	0.78	0.54	0.41	0.77	0.71	0.92	0.72
Tung Nut	0.74						0.74							0.74						0.74
Grape	0.99	0.85	2.28	2.46	1.24	1.34	1.61	0.00	0.00	2.59	0.97	0.68	1.62	0.99	0.85	2.28	2.56	1.00	0.77	1.61
Sugarcane	0.86	1.22	0.80	4.36	0.67	0.84	1.46	0.00	0.00	7.60	2.93	0.00	2.26	0.86	1.22	0.80	4.93	2.33	0.10	1.62
P. Rico Reins.	0.15						0.15			0.31	0.38	1.00	0.56	0.15			0.31	0.38	1.00	0.52
Sunflower	1.03	0.70	1.43	1.11	1.55	4.41	1.28	1.02	1.33	1.06	1.55	3.52	2.11	1.03	0.72	1.40	1.09	1.55	3.78	1.52
Forage Seed.	4.88	4.39	2.67	1.20	2.00	0.58	3.53	0.00	3.00	0.00	1.00	0.28	0.76	4.88	4.38	2.70	1.00	1.67	0.39	3.14
Sweet Corn	0.59	1.12	0.43	1.18	0.42	1.40	0.79	0.00	1.22	2.00	0.49	0.79	0.81	0.59	1.12	0.51	1.39	0.45	0.91	0.80
Forage Prod.	2.00	3.15	2.12	2.71	0.00	0.37	2.13	0.00	2.00	0.00	2.17	3.32	2.85	2.00	3.31	2.12	2.86	1.30	2.23	2.21
Rye	1.00	0.00	0.23	0.59	0.30	1.53	0.51	0.00	1.00	0.10	0.47	0.49	0.51	1.00	0.00	0.47	0.41	0.37	1.01	0.51
Almond		0.02	0.75	3.11	0.00	0.47	0.99	0.00	0.00	3.68	0.01	1.14	1.09		0.02	0.75	3.44	0.01	1.07	1.06
Prev Planting			5.62	1.31	0.40	1.95	4.94		0.00	0.00	0.00	0.00	0.00			5.62	1.31	0.40	1.95	4.94
Hybrid Seed				12.03	2.38	0.81	2.41			15.81	3.25	0.62	1.02				13.23	3.02	0.64	1.21
Citrus Tree				0.00	22.82	0.00	9.50			0.00	21.58	0.67	11.19				0.00	22.39	0.65	10.02
Table Grape					1.21	2.16	1.44				3.24	1.53	2.41					3.04	1.55	2.34
Pepper					1.17	2.79	1.89				1.62	3.92	2.98					1.28	3.49	2.48
Popcorn					3.03	2.14	2.74				3.14	2.07	2.58					3.11	2.08	2.61
Fresh Tomato					7.07	5.71	6.15				3.71	6.89	5.92					6.11	6.07	6.08
Walnut					0.04	0.48	0.19				0.92	0.01	0.55					0.78	0.07	0.50
Cotton, ELS						0.00	0.00					0.00	0.00						0.00	0.00
Cranberry					0.00	0.00	0.00				0.53	0.21	0.34					0.53	0.21	0.34
Sw Corn, Fresh						0.20	0.20					3.07	3.07						2.99	2.88
ALL PROGRAMS	1.10	1.09	1.43	2.24	1.47	1.82	1.28	0.68	0.89	1.70	1.45	1.45	1.41	1.10	1.07	1.32	2.04	1.46	1.55	1.31

The crop year 1985 ratios are based on estimates as of February 1986.

FISCAL YEAR 1987 BUDGET

Mr. SPRAGUE. Thank you, Mr. Chairman. I would like to express, like Secretary Naylor, that indeed it is a pleasure to be here today to present the budget for the Federal Crop Insurance Corporation for fiscal year 1987.

We are really submitting two budgets today, proposals under proposed legislation and under existing legislation. Under each proposal, program participation in the Crop Insurance Program is expected to increase from some 48 million acres in 1985 to 58 million acres in 1986 and subsequently to 68 million acres in 1987.

ADMINISTRATIVE AND OPERATING EXPENSES

In our budget request, we are asking for $239 million for administrative and operating expenses under existing legislation. We are asking for $124 million for premium subsidy under existing legislation and nearly that much under proposed legislation, because the premium subsidy bears a direct relationship to two previous years' level of business.

These levels of requests would provide sufficient funds to continue to expand the program to cover the kinds of acreage that I projected just a moment ago.

The major portion of that budget, as you indicated in your opening statement, will be used to support the private sector delivery system, the reinsured companies and agencies, and contractors who perform loss adjustment services for us on the Federal paper itself.

Actually, $188 million of that administrative and operating request will go to support the private insurance industry for their services that they provide to this program.

CROP INSURANCE EXPERIENCES

In 1985, we had some experiences that I would like to review real quickly with you, because the growth of the program since the enactment of the 1980 legislation is most significant. During that period of time, the availability of crop insurance has been dramatically expanded across this country. We now offer insurance programs in over 3,000 agricultural counties in this country, and that is literally all of them, compared to only 1,600 back in 1980.

We now administer about 19,000 county crop programs. This compares to 4,000 in 1980. The acres insured, the insurance in force and the premium have increased substantially during this period of time. In 1980, just 5 years ago, the total acres insured were about 26 million. That has grown to 48 million acres for the most recent year.

PREMIUM INCOME

The protection enforced, the liability assumed, if you will, has grown from $3 billion to $7 billion in the same period of time. Premium income has risen from $158 million to $440 million on an annual basis in the same period of time.

In 1985, we had experience that, from an underwriting perspective, we have got to call adverse, because losses paid to farmers clearly and substantially exceeded premium income. We have paid, to date, some $660 million and expect to pay about $685 million in total against premium income of $440 million for the most recent year.

These losses were the result of substantially adverse weather situations that occurred in major areas of the country. Despite record production nationwide, there were sizeable areas in the United States that had severe production problems in 1985. Perhaps the most significant was the Upper Midwest and Upper Northwest, Upper Great Plains, the Montana area, where wheat and barley production was severely ravaged by the effects of 2 years of substantially reduced moisture.

The claims paid by the Federal Crop Insurance Corporation in that area of the country exceeded the premium income by a margin of about 10 to 1.

The program has not only grown in size; it has grown in terms of its ability to protect farmers against the hazards that they face. We now insure more crops than we have ever covered in previous years; we are continuing to develop, on a rather limited basis, new programs that are placed on line on a regular basis. We now have insurance programs available for the producers of approximately 40 crops in this country.

PROPOSED LEGISLATION

Most of the major crops clearly have crop insurance protection available. The primary difference between the budgets under existing legislation and proposed legislation is the source of the funds that will be used to support the activities. The same levels of program are expected in either case, but under proposed legislation, the source of funds would involve producer premium payments to support some of the services that are currently provided out of Federal funds, and there would be a gradual reduction in the level of premium subsidy over the next 5 years.

We had to make some real hard choices in the Department of Agriculture to determine just how to meet the demands or mandate, if you wish, of the act that was passed last year, which requires us to make progress toward a balanced Federal budget. We have had to decide where to allocate the resources available to the Department of Agriculture, and at our agency. The choice was made to propose some rather dramatic changes to our legislation in order to make available funds for other uses within the Department in the succeeding years.

I believe personally that if it is public policy to enhance or supplement farm income, that other programs administered by the Department of Agriculture can make more effective use of the extremely limited funds which now appear to be available for future years.

PRIVATE INSURANCE INDUSTRY

The private insurance industry, at the same time, has developed the experience and the expertise and the commitment to service this line of insurance to the extent that I believe, that in the next 5 years, they can assume full responsibility for the program.

The Federal support during the course of the last 5 years clearly has been instrumental in the development of that capability as well as instrumental in the expansion of the usage of the program to the extent that is now the case. I believe that the recommendation that accompanies the proposed budget for changes to legislation makes sense because the capability to service and provide crop insurance now exists in the private sector; because crop insurance is becoming a generally accepted business practice; and because there are some preferable uses for limited amounts of public funds.

Mr. Chairman, I appreciate the opportunity to make a statement. I would be delighted to respond to questions at this time.

PREMIUM COSTS TO FARMERS

Senator COCHRAN. Thank you very much, Mr. Sprague. We appreciate the comments and thank you, again, for preparing a written statement in advance. We have reviewed that, and we wonder about some of the practical consequences of the proposals the administration is making. I am particularly concerned, for instance, if we phase out the assistance that the Federal Government makes available in the payment of premiums, how much is this going to increase the premium cost to the farmers?

Mr. SPRAGUE. Mr. Chairman, we have conducted an analysis of our expectations. Of course, you have to make certain assumptions when you prepare such an analysis. I would be delighted to provide it for the record.

But on the average, if one assumes no change in a program, no change in the experience with the program, the increase clearly will be in the neighborhood of 65 to 75 percent on a net risk premium basis.

[The information follows:]

FEDERAL CROP INSURANCE CORPORATION--IMPACT OF PHASE-OUT OF PREMIUM SUBSIDY AND ADMINISTRATIVE EXPENSES--FY 1987-91 Page 1 of 3

	CURRENT (CROP YEAR 1985)					1ST YEAR PHASE-OUT					
						NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses	
	Insured Acres (000)	Total Premium ($000)	Premium Subsidy 0.23417 ($000)	Farmer Premium 0.76583 ($000)	Farmer Premium Per Acre	Premium Subsidy 0.119536 ($000)	Farmer Premium 0.880464 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre
Almonds	52	$3,492	$818	$2,674	$51.74	$556	$4,092	73	$56.21	$5,003	$68.73
Apples	16	1,775	416	1,360	83.72	282	2,080	23	90.95	2,544	111.21
Barley	3,114	16,204	3,795	12,410	3.99	2,578	18,989	4,386	4.33	23,219	5.29
Beans	316	3,905	914	2,990	9.46	621	4,576	445	10.28	5,595	12.57
Citrus	60	2,573	603	1,'71	32.62	409	3,015	85	35.44	3,687	43.33
Citrus Trees	10	293	69	224	22.06	47	343	14	23.96	420	29.30
Combined Crop	139	343	80	263	1.89	55	402	196	2.06	492	2.52
Corn	12,191	113,845	26,659	87,186	7.15	18,112	133,406	17,173	7.77	163,124	9.50
Cotton	1,391	20,089	4,704	15,385	11.06	3,196	23,540	1,960	12.01	28,784	14.69
Cotton, ELS	3	82	19	62	19.38	13	96	5	21.05	117	25.74
Cranberry	1	185	43	142	141.68	29	217	1	153.90	265	188.18
Flax	94	461	108	353	3.77	73	540	132	4.10	660	5.01
Forage Seeding	2	6	2	5	3.01	1	8	2	3.27	9	4.00
Forage Production	1	6	1	5	3.32	1	7	2	3.61	9	4.41
Grain Sorghum	2,253	14,876	3,483	11,392	5.06	2,367	17,432	3,174	5.49	21,315	6.72
Grapes	51	2,065	484	1,582	31.25	329	2,420	71	33.95	2,959	41.51
Grapes, Table	14	1,491	349	1,142	84.06	237	1,747	19	91.31	2,137	111.65
Hybrid Seed	372	10,226	2,395	7,831	21.05	1,627	11,983	524	22.86	14,652	27.96
Oats	333	1,355	317	1,038	3.12	216	1,588	469	3.39	1,942	4.14
Peaches	32	1,789	419	1,370	42.17	285	2,096	46	45.80	2,563	56.01
Peanut	629	15,484	3,626	11,858	18.85	2,463	18,144	886	20.47	22,186	25.03
Peas, Dry	27	211	49	161	5.90	34	247	38	6.41	302	7.84
Peas, Green	55	701	164	537	9.76	112	822	78	10.60	1,005	12.96
Pepper	3	427	100	327	115.59	68	500	4	125.56	611	153.53
Popcorn	37	390	91	299	8.09	62	457	52	8.79	559	10.75
Potatoes	107	3,520	824	2,695	25.26	560	4,124	150	27.44	5,043	33.55
Prevented Planting	1	1	0	1	1.18	0	2	1	1.28	2	1.57
Raisins	273	9,434	2,209	7,224	26.49	1,501	11,054	384	28.77	13,517	35.18
Rice	144	1,130	265	866	5.99	180	1,324	203	6.51	1,619	7.96
Rye	4	18	4	14	3.15	3	21	6	3.42	26	4.19
Soybeans	9,686	91,629	21,457	70,172	7.25	14,577	107,372	13,643	7.87	131,291	9.62
Sugar Beets	112	1,931	452	1,479	13.17	307	2,262	158	14.30	2,766	17.49
Sugarcane	26	841	197	644	24.33	134	986	37	26.43	1,205	32.32
Sunflowers	804	4,974	1,165	3,809	4.74	791	5,829	1,133	5.15	7,127	6.29
Sweet Corn	25	310	73	237	9.46	49	363	35	10.27	444	12.56
Sweet Corn, Fresh Mkt	6	111	26	85	13.58	18	130	9	14.75	159	18.04
Tobacco	276	18,159	4,252	13,907	50.38	2.889	21,279	389	54.73	26,019	66.92
Tomatoes--Fresh	11	1,919	449	1,470	132.23	305	2,249	16	143.63	2,750	175.63
Tomatoes--Processed	58	3,303	774	2,530	43.85	526	3,871	81	47.63	4,733	58.24
Walnuts	3	98	23	75	22.68	16	115	5	24.63	141	30.12
Wheat	15,947	90,348	21,157	69,191	4.34	14,373	105,871	22,464	4.71	129,455	5.76
Subtotal (Excls P.R.)	48,681	440,000	103,035	336,965	6.92	70,000	515,600	68,574	7.52	630,459	9.19
% ADDL COST PER ACRE TO FARMER									8.626%	114,859	32.824%

FEDERAL CROP INSURANCE CORPORATION--IMPACT OF PHASE-OUT OF PREMIUM SUBSIDY AND ADMINISTRATIVE EXPENSES--FY 1987-91 Page 2 of 3

	2ND YEAR PHASE-OUT						3RD YEAR PHASE-OUT					
	NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses		NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses	
	Premium Subsidy 0.053846 ($000)	Farmer Premium 0.946154 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre	Premium Subsidy 0.05 ($000)	Farmer Premium 0.95 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre
Almonds	$278	$4,881	81	$60.40	$6,367	$78.79	$278	$5,277	87	$60.65	$7,287	$83.75
Apples	141	2,481	25	97.73	3,237	127.49	141	2,683	27	98.13	3,705	135.50
Barley	1,289	22,649	4,868	4.65	29,546	6.07	1,289	24,491	5,243	4.67	33,818	6.45
Beans	311	5,458	494	11.04	7,119	14.41	311	5,901	532	11.09	8,149	15.31
Citrus	205	3,597	94	38.08	4,692	49.68	205	3,889	102	38.24	5,370	52.80
Citrus Trees	23	410	16	25.75	534	33.59	23	443	17	25.85	612	35.70
Combined Crop	27	480	217	2.21	626	2.88	27	519	234	2.22	716	3.06
Corn	9,056	159,124	19,061	8.35	207,575	10.89	9,056	172,061	20,527	8.38	237,588	11.57
Cotton	1,598	28,079	2,176	12.91	36,628	16.84	1,598	30,361	2,343	12.96	41,924	17.89
Cotton, ELS	6	114	5	22.62	149	29.51	6	123	5	22.72	170	31.37
Cranberry	15	259	2	165.38	337	215.74	15	280	2	166.06	386	229.30
Flax	37	644	146	4.41	840	5.75	37	697	157	4.42	962	6.11
Forage Seeding	1	9	3	3.51	12	4.58	1	10	3	3.53	13	4.87
Forage Production	1	9	2	3.88	12	5.06	1	10	2	3.89	13	5.38
Grain Sorghum	1,183	20,792	3,523	5.90	27,123	7.70	1,183	22,483	3,794	5.93	31,045	8.18
Grapes	164	2,887	79	36.48	3,766	47.59	164	3,121	85	36.63	4,310	50.58
Grapes, Table	119	2,084	21	98.12	2,719	128.00	119	2,254	23	98.52	3,112	136.05
Hybrid Seed	813	14,293	582	24.57	18,645	32.05	813	15,455	626	24.67	21,341	34.06
Oats	108	1,894	521	3.64	2,471	4.75	108	2,048	561	3.65	2,828	5.04
Peaches	142	2,500	51	49.22	3,261	64.21	142	2,703	55	49.42	3,733	68.25
Peanut	1,232	21,642	984	22.00	28,231	28.70	1,232	23,401	1,059	22.09	32,313	30.50
Peas, Dry	17	294	43	6.89	384	8.99	17	318	46	6.92	440	9.56
Peas, Green	56	980	86	11.39	1,279	14.86	56	1,060	93	11.44	1,464	15.79
Pepper	34	596	4	134.93	778	176.01	34	645	5	135.48	890	187.07
Popcorn	31	545	58	9.45	711	12.33	31	590	62	9.49	814	13.10
Potatoes	280	4,919	167	29.49	6,417	38.47	280	5,319	180	29.61	7,345	40.88
Prevented Planting	0	2	1	1.38	2	1.80	0	2	1	1.39	3	1.91
Raisins	750	13,185	426	30.92	17,200	40.33	750	14,257	459	31.05	19,687	42.87
Rice	90	1,580	226	7.00	2,061	9.13	90	1,708	243	7.02	2,359	9.70
Rye	1	25	7	3.68	33	4.80	1	27	7	3.69	37	5.10
Soybeans	7,289	128,072	15,144	8.46	167,068	11.03	7,289	138,484	16,308	8.49	191,224	11.73
Sugar Beets	154	2,698	176	15.37	3,520	20.05	154	2,918	189	15.43	4,029	21.31
Sugarcane	67	1,176	41	28.40	1,533	37.05	67	1,271	45	28.52	1,755	39.38
Sunflowers	396	6,953	1,257	5.53	9,070	7.21	396	7,518	1,354	5.55	10,381	7.67
Sweet Corn	25	433	39	11.04	565	14.40	25	469	42	11.08	647	15.30
Sweet Corn, Fresh Mkt	9	155	10	15.85	203	20.68	9	168	11	15.92	232	21.98
Tobacco	1,444	25,381	432	58.81	33,109	76.72	1,444	27,445	465	59.05	37,897	81.54
Tomatoes--Fresh	153	2,683	17	154.35	3,500	201.35	153	2,901	19	154.98	4,006	214.00
Tomatoes--Processed	263	4,617	90	51.18	6,023	66.77	263	4,992	97	51.39	6,894	70.97
Walnuts	8	137	5	26.47	179	34.53	8	149	6	26.58	205	36.70
Wheat	7,187	126,281	24,934	5.06	164,732	6.61	7,187	136,548	26,852	5.09	188,550	7.02
Subtotal (Excls P.R.)	35,000	615,000	76,115	8.08	802,257	10.54	35,000	665,000	81,968	8.11	918,255	11.20
% ADDL COST PER ACRE TO FARMER				16.730%	187,257	52.273%				17.207%	253,255	61.843%

FEDERAL CROP INSURANCE CORPORATION--IMPACT OF PHASE-OUT OF PREMIUM SUBSIDY AND ADMINISTRATIVE EXPENSES--FY 1987-91 Page 3 of 3

	4TH YEAR PHASE-OUT						5TH YEAR PHASE-OUT					
	NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses		NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses	
	Premium Subsidy 0 ($000)	Farmer Premium 1 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre	Premium Subsidy 0 ($000)	Farmer Premium 1 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre
Almonds	$0	$5,952	93	$63.84	$8,393	$90.03	$0	$6,349	99	$63.84	$9,063	$91.14
Apples	0	3,026	29	103.30	4,267	145.67	0	3,228	31	103.30	4,608	147.46
Barley	0	27,621	5,617	4.92	38,951	6.93	0	29,463	5,992	4.92	42,060	7.02
Beans	0	6,656	570	11.67	9,386	16.46	0	7,099	608	11.67	10,135	16.66
Citrus	0	4,386	109	40.25	6,186	56.76	0	4,679	116	40.25	6,679	57.46
Citrus Trees	0	500	18	27.22	704	38.38	0	533	20	27.22	761	38.85
Combined Crop	0	585	250	2.34	825	3.29	0	624	267	2.34	891	3.34
Corn	0	194,054	21,993	8.82	273,651	12.44	0	206,991	23,459	8.82	295,494	12.60
Cotton	0	34,242	2,510	13.64	48,287	19.24	0	36,525	2,678	13.64	52,142	19.47
Cotton, ELS	0	139	6	23.91	196	33.72	0	148	6	23.91	212	34.14
Cranberry	0	315	2	174.80	445	246.49	0	336	2	174.80	480	249.53
Flax	0	786	169	4.66	1,108	6.57	0	838	180	4.66	1,196	6.65
Forage Seeding	0	11	3	3.71	15	5.24	0	12	3	3.71	17	5.30
Forage Production	0	11	3	4.10	15	5.78	0	12	3	4.10	16	5.85
Grain Sorghum	0	25,357	4,065	6.24	35,757	8.80	0	27,047	4,336	6.24	38,611	8.90
Grapes	0	3,520	91	38.56	4,964	54.37	0	3,755	97	38.56	5,361	55.04
Grapes, Table	0	2,542	25	103.71	3,584	146.25	0	2,711	26	103.71	3,870	148.05
Hybrid Seed	0	17,430	671	25.97	24,580	36.62	0	18,592	716	25.97	26,542	37.07
Oats	0	2,310	601	3.85	3,258	5.42	0	2,464	641	3.85	3,518	5.49
Peaches	0	3,049	59	52.02	4,299	73.36	0	3,252	63	52.02	4,642	74.27
Peanut	0	26,393	1,135	23.25	37,218	32.79	0	28,152	1,211	23.25	40,189	33.19
Peas, Dry	0	359	49	7.28	506	10.27	0	383	53	7.28	547	10.40
Peas, Green	0	1;195	99	12.04	1,686	16.98	0	1,275	106	12.04	1,820	17.19
Pepper	0	727	5	142.61	1,026	201.10	0	776	5	142.61	1,107	203.58
Popcorn	0	665	67	9.99	938	14.08	0	709	71	9.99	1,013	14.26
Potatoes	0	5,999	192	31.17	8,460	43.95	0	6,399	205	31.17	9,135	44.49
Prevented Planting	0	2	2	1.46	3	2.06	0	2	2	1.46	4	2.08
Raisins	0	16,080	492	32.68	22,675	46.08	0	17,152	525	32.68	24,485	46.65
Rice	0	1,926	261	7.39	2,717	10.43	0	2,055	278	7.39	2,933	10.56
Rye	0	30	8	3.89	43	5.48	0	32	8	3.89	46	5.55
Soybeans	0	156,185	17,473	8.94	220,249	12.60	0	166,598	18,638	8.94	237,830	12.76
Sugar Beets	0	3,291	203	16.24	4,641	22.90	0	3,510	216	16.24	5,011	23.19
Sugarcane	0	1,434	48	30.02	2,022	42.33	0	1,529	51	30.02	2,183	42.85
Sunflowers	0	8,479	1,451	5.84	11,957	8.24	0	9,044	1,548	5.84	12,911	8.34
Sweet Corn	0	529	45	11.67	745	16.45	0	564	48	11.67	805	16.65
Sweet Corn, Fresh Mkt	0	190	11	16.75	267	23.62	0	202	12	16.75	289	23.92
Tobacco	0	30,953	498	62.16	43,649	87.65	0	33,016	531	62.16	47,133	88.73
Tomatoes--Fresh	0	3,272	20	163.14	4,614	230.05	0	3,490	21	163.14	4,982	232.89
Tomatoes--Processed	0	5,630	104	54.10	7,940	76.29	0	6,006	111	54.10	8,574	77.23
Walnuts	0	168	6	27.98	236	39.45	0	179	6	27.98	255	39.94
Wheat	0	154,001	28,770	5.35	217,169	7.55	0	164,268	30.688	5.35	234,504	7.64
Subtotal (Excls P.R.)	0	750,000	87,823	8.54	1,057,633	12.04	0	800,000	93,678	8.54	1,142,054	12.19
% ADDL COST PER ACRE TO FARMER				23.376%	307,633	73.981%				23.376%	342,054	76.127%

CROP INSURANCE

Senator Cochran. What is this going to do to levels of participation? Is this going to mean that fewer and fewer farmers are going to decide to buy insurance because they can't afford it? What is the net effect going to be?

Mr. Sprague. Mr. Chairman, we believe that if this is phased in over a period of time that the net effect will be negligible. We believe that farmers do not buy crop insurance primarily on the basis of cost, but rather on the basis of need. Does it make sense to protect my farming operation? Does my lender require it?

There are several questions that seem to have more precedence than the actual cost of the product itself.

A logical extension of the argument that this program should continue to be supported by Federal funds could be to say that all insurance purchased by farmers should be subsidized, should be sold at less than its real cost. I don't believe very many in this country would support the U.S. taxpayer paying a portion of the costs of automobile insurance for farmers or building insurance for farmers or property or casualty insurance for farmers. I believe over the long term they can and will buy crop insurance if it makes sense to them at its real cost.

Senator Cochran. What concerns me about this entire approach is that if we get the premium dollar cost to the farmer up so high that he just can't afford to buy it and doesn't buy it and then disaster strikes, where does that leave the farmer, and where does that leave the Federal Government? I fear that we are going to see, in such a situation, so much pressure put on the Congress for a response that there will be a response, and there will be a disaster assistance program of some kind enacted by the Congress, and we will be back where we started.

I don't think any of us want that to happen.

Mr. Sprague. Yes.

CROP INSURANCE PROTECTION

Senator Cochran. I know it is tough for us to sit here and try to look down the road and imagine the consequences of these proposals, but I express that concern because it is a genuine concern that I have. I am in favor of having a strong Federal crop insurance program. I think that is desirable, but if the reality is that the premium can go up high enough so that the farmer doesn't buy it or doesn't buy sufficient coverage, he buys only protection for about 60 percent or 50 percent of what he really needs, then he is going to get his Congressman or his Senator to introduce a bill to help him out when there is a big disaster that strikes.

What is your reaction to that?

Mr. Sprague. Senator, I think the thing that is necessary to consider in the case you just described is where can a limited amount of public funds be best used to enhance or supplement farm income? Can it be used in this kind of a program? Should it be used in this kind of a program? Or should it be used in some of the other programs administered by the U.S. Department of Agriculture?

Senator COCHRAN. I have some other questions. I think I will defer them, though, until later in the hearing and give other Senators a chance to ask some questions.

Senator Burdick.

Senator BURDICK. Thank you, Mr. Chairman.

Did you say that the premium had increased 65 percent? What was the figure you gave me?

PREMIUM COSTS

Mr. SPRAGUE. It would be somewhere in that neighborhood. Clearly, if today's program is subsidized in total to the extent of about 45 percent, it does not take any person too smart to know that if all of those subsidies were removed, that the cost would be substantially higher. But at the same time, there are some competing influences upon premium costs. Commodity prices bear a direct relationship to the amount of liability we assume. When they are lower, the costs for crop insurance are lower. If they are higher, the crop insurance costs are also higher.

The bottom line on premium, however, is that it must be fair and equitable and that it must provide a value for its cost. If the crop insurance program meets its underwriting targets, it should be a viable insurance protection program, just like other lines of property and casualty insurance that are broadly and widely used by farmers across this country.

REINSURANCE AGREEMENT

Senator BURDICK. What do we do about the situation where an insurance company won't insure a particular farmer?

Mr. SPRAGUE. To the best of my knowledge, we have none of those with crop insurance at this point where we have otherwise available programs, where we have authorized programs. One of the requirements of our reinsurance agreement with companies is that they must serve all farmers. If they do not serve a farmer, they must tell us his name and why, and it then becomes the obligation of the Federal Crop Insurance Corporation to assist the farmer to get insurance protection. To the best of my knowledge, there are no such cases today.

Senator BURDICK. I know not today, but this thing is tightening up in the farm country. It could be there tomorrow. There is no way that you can force an insurance company to write the policy if they don't want to.

Mr. SPRAGUE. Keep in mind, sir, that today, the Federal Crop Insurance Corporation is not only a reinsurance company; it is an insurance company. It is a primary writer of crop insurance. It can continue to be so, and it can continue to be so specifically for the purpose of offering protection to those farmers who would not otherwise have insurance available to them.

OTHER APPROACHES FOR INCREASING FARM INCOME

Senator BURDICK. From another angle, I think you read something about the heartland of this country and the troubles we are having. I am a bit afraid that if we have this premium increase, more and more farmers are going to gamble and not take out any insurance at all. We know that right now, they are lightening up on their fertilizer and things like that to cut corners and to cut costs. They could very likely cut corners on this, too, and take a gamble on the weather or whatever it is. Don't you see that as kind of a threat to the farmer community?

Mr. SPRAGUE. That is certainly a possibility, Senator. But the bottom line question is: Is this the best place to use a limited amount of Federal funds for the indefinite future? Are there other approaches, are there other uses for those limited funds which would go farther toward enhancing individual farm income in comparison to selling a product like crop insurance at less than its real costs?

Senator BURDICK. Thank you, Mr. Chairman.

Senator COCHRAN. Senator Stennis.

Senator STENNIS. Mr. Chairman, you have a mighty good witness here. He knows his subject, I believe.

Were you in the insurance business in any way before you went in your present position?

Mr. SPRAGUE. Mr. Stennis, I have been a farmer for 25 years. I was not associated with the insurance business in any fashion except as a premium payer.

Senator STENNIS. You looked at the other side of the ledger. You learned it the hard way. I am very much interested in your testimony, too, and wish you would mail me a copy of your statement, including the statement you made orally here in your testimony.

Mr. SPRAGUE. Yes, sir.

RISK OF NO INSURANCE COVERAGE

Senator STENNIS. I wish I were wise enough to answer my colleague's question here about the trend to skip the insurance and take a chance. He knows better than I do about human nature and all, but isn't that a question of judgment by the farmer himself in passing judgment and taking chances and so forth?

Mr. SPRAGUE. That would be true in most any kind of a situation, wouldn't it, Senator?

Senator BURDICK. There are gambles in all forms of life.

Senator STENNIS. Yes. Yes.

You certainly know your subject matter. I can't add to it. I would like to go over it again.

Mr. SPRAGUE. Thank you, sir.

Senator STENNIS. I hope you can send me that copy.

Mr. SPRAGUE. I will, sir.

Senator STENNIS. Thank you.

BORROWING AUTHORITY

Senator COCHRAN. Thank you, Senator.

Last year, we had some discussions about borrowing authority in the Crop Insurance Corporation.

We were concerned with the fact that the Corporation ran out of money and claims couldn't be paid; other payments were held up and delayed while Congress wrestled with supplemental appropriations bills and the like. To guard against that in the future, the farm bill was amended to provide that the Federal Crop Insurance Corporation would have the legal authority to borrow from the Commodity Credit Corporation any funds that it had to have on an emergency basis.

I am told that a proposal has been submitted now by the administration to authorize borrowing authority directly from the Treasury. My question is: Is that correct and is that inconsistent with the support of the Department and OMB and the Corporation last year for the provision that was included in the farm bill to provide borrowing authority from CCC?

Mr. SPRAGUE. Mr. Chairman, you are correct about the request to borrow directly from the Treasury being a part of the legislative proposal that addresses a number of issues relating to the Crop Insurance Program.

We have been satisfied and have been able to meet our needs in the recent months by being able to borrow from the Commodity Credit Corporation. As a short-term solution to the problems we faced 9 months ago, it has been a satisfactory solution.

But over the long run, there is probably a better approach, and we believe strongly that Congress should have the oversight responsibility for all funds that end up in the Federal Crop Insurance Corporation's funds; we believe that there are, perhaps, better ways to fund the Corporation's need for unexpected losses than the current situation, even though it meets our needs today.

So, long-term, we think there is probably a better solution than the short-term solution that is current.

BORROWING FROM CCC

Senator COCHRAN. As just a matter of information, do you have any figures or statistics that can be relied upon to answer a question of how many times you have borrowed from CCC using this authority that has been made available?

Mr. SPRAGUE. Mr. Chairman, we have borrowed from CCC only in small increments to run for short periods of time. There was no need to tie up limited available funds that might have been used by that agency for the purposes of administering its programs when we did not need them to pay claims.

So we have drawn small amounts on three occasions totaling $112 million out of a total approval slightly in excess of $200 million for the current fiscal year.

EFFECTS OF BORROWING FROM CCC

Senator COCHRAN. Has there been any effect on the participation level or the operation of the program because of these instances where you have had to go in and borrow from CCC?

Mr. **Sprague.** Mr. Chairman, there is no question but what an unusual delay in making a legitimate payment due under the terms of our contract to farmers hurts our program. In August of last year, we went nearly 30 days being unable to pay producers' legitimate claims. We were fortunate in that the loss volume during that period of time was fairly small; it was between the major seasons where we pay losses; it was not at a harvest time period.

Consequently, the effects probably were minor in relation to what could exist if we were forced to delay payment for a substantial period of time during a high loss season. So to date, I do not see any great negative effects upon our program as a result of those periods of time when we were unable to pay claims. But we are fortunate in that the payments did resume before severe hardship resulted.

Senator **Cochran.** As you know, the House of Representatives, in the development of a supplemental appropriations bill this year, struck out or purported to devise some language to include in its appropriations bill that would actually delete the legal authority and take away that authority that had been approved earlier in the farm bill.

It was a matter of intense negotiation and discussion between the Senate and the House, and it was finally worked out so that that borrowing authority was protected and is preserved and is still the law.

But we may have further discussions on it. That is why I wanted to satisfy myself that borrowing authority, No. 1, is needed; and, No. 2, if that is the administration's position, that it is a good thing to have it for emergency situations.

PROPOSAL FOR BORROWING FROM TREASURY

I am interested in reviewing more carefully the proposal for borrowing authority from the Treasury, and we will give that careful consideration, although that is up to the legislative committee. I think it would be a mistake for us to try to write in that authority, and I don't think you are suggesting that that is what this committee ought to do.

Mr. **Sprague.** No.

BORROWING FOR EMERGENCY PURPOSES

Senator **Cochran.** I was curious to know about whether your position had changed on that point or whether you still think we need to continue to have that borrowing authority for emergency purposes.

Mr. **Sprague.** So long as we have very small cash balances in the Federal Crop Insurance Fund available to pay farmers losses when losses occur, we need a regular source of funding which can be relied upon by the holders of our contracts.

If we have permanent legislation that provides an alternative to today's situation, that might well be preferable, but until that happens, the continuation of the present situation would be the preferred posture of Corporation management.

In many respects, our unfortunate need to repeatedly go to the well for more money to pay indemnities reflects over and over again upon the fact that in the process the user is really not paying for all that he gets in the case of the Federal Crop Insurance Program.

We are making efforts to make our program more nearly actuarially sound. We are making efforts to adjust premiums where we feel premium rates need to be adjusted. But long term, the Crop Insurance Program must show operating results which reach our targets of a break-even situation from an underwriting perspective.

CROP INSURANCE CONTRACTS

Senator COCHRAN. Since more and more emphasis is being placed on the private sector's involvement in the program to make it work and to deliver the insurance contracts to farmers, to what extent are they involved in decisions that are made by the Corporation?

Mr. SPRAGUE. At the present time, the control of the program is in the hands of the Federal Crop Insurance Corporation. But because of their substantial role in the delivery of crop insurance and because of their expertise in insurance matters, their contribution to the design of crop insurance contracts, their contribution to the program is growing. We are learning, in many respects, how to use this capability on their part, and they, at the same time, are learning how to deal with the Federal Government as a partner in business.

It has not been a completely harmonious relationship, but we have each gained a lot of knowledge about how to work together in the course of the last 5 years.

If the proposed legislation that accompanies the budget is approved in the next 5 years, that process can continue to the extent that they should be able to rather substantially control the program by the year 1991.

Senator COCHRAN. Thank you very much.

Senator Kasten, any questions of Mr. Sprague?

RURAL ELECTRIFICATION ADMINISTRATION

Senator KASTEN. Mr. Chairman, thank you.

I have a brief statement that I would like to submit and a few questions for the record, because my question relates to REA. I understand that you are about to hear from that agency.

Senator COCHRAN. Right.

Senator KASTEN. Would it be all right if I made a brief statement at this time?

Senator COCHRAN. Sure.

Senator KASTEN. What I will do, then, is leave the questions in the record, Mr. Chairman.

PROPOSAL TO ELIMINATE REA

Mr. Chairman, of all the Federal agencies created during the New Deal, there are few more inspiring success stories than the Rural Electrification Administration. The REA has played the leading role in transforming the American countryside, leading it out of poverty and isolation into the modern world. Those of us who are from largely rural States know that even today, there are many citizens who would be without access to affordable electric and telephone service without the assurance of credit provided through the REA. Therefore, I am disturbed that the administration is once again proposing to eliminate this agency.

It is neither fair nor wise to pull the rug out from rural America by forcing up the cost of electric service and telephone service, as elimination of the REA programs would surely do. These are tough times, difficult times for many in rural America, not just the farmers. But, in fact, hard times on the farm mean hard times for thousands of people who serve agriculture in the small towns in Wisconsin and across the country.

The administration's proposal to phase out lending for rural electric and telephone service includes many assertions that rural electric and telephone co-ops now serve many prosperous, nonrural areas. I think that is an important argument, or I should say an interesting argument; perhaps even the basis for an effort to reform the program. But in Wisconsin, rural co-ops do serve rural areas in which the cost of electric and telephone service would be substantially higher if help from REA weren't available.

I understand and I appreciate the administration's sincerity in trying to reduce Federal spending, but this is not the place and not the time to do it. I am going to be supporting a freeze on REA lending this year and will oppose efforts to eliminate the agency.

Mr. Chairman, I appreciate the chance to go out of order here. What I am particularly interested in and the subject of my questions will be on the subject of rural electric and telephone co-ops serving these nonrural areas. My guess is that your State is a lot like mine; we have a lot of rural areas that are truly rural, and the argument about the co-ops continuing to serve areas where REA financing would no longer be available is not an argument that sticks, at least not very well, in most of my State.

Mr. Chairman, I appreciate the opportunity to make this statement, and I look forward to the testimony of Mr. Hunter.

Senator COCHRAN. Thank you very much, Senator Kasten.

SUBMITTED QUESTIONS

We appreciate your being with us today, Mr. Sprague. We may have some questions to submit in writing from members of the subcommittee, which we will ask you to respond to in a timely manner.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

IMPORTANCE OF PARTICIPATION TO ACTUARIAL SOUNDNESS

Question: Have you conducted any studies on the importance of participation to actuarial soundness? Please provide for the record? What do you think the relationship is?

Answer: No specific studies have been done to evaluate the importance of participation to actuarial soundness. However, as with any statistical process, a certain amount of data is needed to develop estimates of parameters of that process. The quantity of data affects the degree of confidence that the statistician has in the results. Some minimum quantity of data (participation) is needed to achieve an acceptable level of statistical confidence. Once the minimum level is available, added data does not markedly improve the statistical properties of the estimates.

ACTUARIAL CONSIDERATIONS IN RATE ADJUSTMENTS

Question: I have been advised that FCIC has directed premium rates on certain crops to be increased in an effort to "fix" the FCIC's "critical cash needs." One of the crops affected was peanuts. What were the actuarial considerations involved in the peanut rate adjustment?

Answer: Rate adjustments for peanuts and several other crops were based on the following criteria:

(1) 1984 premium for crop greater than or equal to $1.5 million.

(2) 1984 premium for state within crop greater than or equal to $.3 million.

(3) States and crops meeting these criteria were increased by:

(a) 0 percent if the 1981-84 loss ratio was less than or equal to 1.00.

(b) 1.35 minus the 1981-84 loss ratio when the loss ratio lies between 1.00 and 1.35, or

(c) 35 percent if the 1981-84 loss ratio equals or exceeds 1.35.

Full increases were taken at Level 3 while Levels 1 and 2 increased at a lesser rate.

Question: Is it part of actuarially sound rate-making to fix rates to solve criticial cash needs?

Answer: No. Rate-making is based on overtime expectations and is not designed to meet short-term cash requirements.

Question: Is not this Committee the place to tend to "critical cash needs" if, in fact, they exist and if it is in the public interest that they be fixed?

Answer: We strongly agree that authority and responsibility for devising a vehicle to meet unexpected "critical cash needs" of the Corporation rests with Congress.

ACTUAL PRODUCTION HISTORY PROGRAM (APH)

Question: Can APH be handled at sometime other than in the sales and planting season?

Answer: APH relies on a ten-Year producer production data base for actuarial sufficiency. However, current procedure provides insureds with the option of using or not using current year's data.

This issue will again be surfaced this year when consideration is given to alternative methods of reporting production.

While the most accurate quotation for insurance coverage is appropriate at the time of the sale, and one of the criticisms of the process is the difficulty in providing accurate guarantee levels, it may be possible to shift the documentation date for APH to the acreage reporting date. Once the APH program is no longer encumbered by the transitional period, a method of regularly providing production information could be developed which would spread the workload over a longer period and make the furnishing and application of the information easier for both the producer and the program. Under the program available today, a producer may furnish a certified record of annual production by insurance unit at any time after harvest until the sales closing date of the second subsequent insurance year. For example, the production record for 1985 insured corn is not required until approximately April 15, 1987, in most areas of the nation. If the producer desires the 1985 production record to be included in the calculations used to determine the 1986 guarantee, it obviously must be furnished by the sales closing date for that crop year.

Question: Considering that the Corporation has recently implemented the APH program and that the doubling of the average per acre premium rate charged by the Corporation since the expanded program was implemented is likely holding down participation, do you consider the timing appropriate to implement your proposal to eliminate the premium subsidy and begin including administrative costs in the premium rate base?

Answer: It is not true that premium rates have doubled since 1980 despite some rises in premium costs on a per acre basis. A major share of the rise in premium costs bears a direct relationship to increased coverage levels, increased liability, and expanded program benefits since 1980. In spite of these increases program participation has grown substantially. While we would like to see greater growth, we have had an increase in acres covered from 26.6 million acres in 1980 to 48 million in 1985, and premium has increased in that same period from $158 to $440 million.

We firmly believe that this growth indicates that crop insurance is being accepted as the primary economic risk management tool for today's producer and that the economics of farming in the 80's and 90's will further encourage the use of insurance as the most prudent method of protecting crop investments. The time to begin to withdraw the government from direct participation is now, when we can foresee the trend rather than later when both the industry and the producers have institutionalized government subsidies. We believe that we can foresee both producer acceptance, and marketplace support through the credit system, of the necessity of insurance in the absence of government disaster giveaway programs.

TARGET DATES FOR PRIVATE SECTOR INVOLVEMENT IN PROGRAM

Question: Do you have target dates for allowing the private sector to take the initiative, subject to FCIC final approval for:

* development of new crop programs;
* evaluation of rates and recommendation of changes;
* independent development of rules and policy forms;
* authority to develop regionalized policies to better meet the needs of local growers (FCIC currently has only one corn policy that is expected to work equally well for farmers in Central Iowa, Southern Mississippi, or Northern Minnesota); and
* simplification of the program to make it easier to understand and reduce the administrative costs?

Answer: The FCIC has not established a schedule to shift the initiative for any of the activities listed to the private sector at this time. It is important to note, however, that the industry currently is encouraged to, and has, taken the initiative in a number of areas:

In the development of new crop programs, the industry has presented to the FCIC, and we have approved and are reinsuring the cranberry insurance program and a nursery stock program which were approved by the Board of Directors. We encourage the industry to undertake the activities necessary in new program development and to present opportunities to the Board.

The Crop Hail Insurance Actuarial Association (CHIAA) presently collects and evaluates information relative to rates and coverages which is furnished to FCIC and from which we work together to establish a sound program. We do differ on some matters, but we are sensitive to the information and material CHIAA presents.

The reinsured companies presently utilize CHIAA to develop the policies and forms used by them in their insurance activities. These materials must conform generally to FCIC regulations, but differences do exist to reflect disparities between the insurance laws of the various states and are permitted.

We recognize the difficulties which are presented by the lack of policies which reflect regional differences in crops and practices. While we have been in this period of expansion, we have focused on establishing crop programs more than on refining them to specific areas. This would certainly be a next step and we may be able to focus on some of these matters in the foreseeable future. We would encourage the participation of the private sector in this effort, when it is undertaken, since they are uniquely situated to provide state and regional documentation.

Both FCIC and CHIAA recognize the difficulties that movement to a production based guarantee have caused and we have been working together for some time now to simplify and streamline the paperwork process. As the APH program has been extended to all major crops, we expect to greatly simplify the ongoing process of providing records. We are working with our private sector partners to develop methods of providing production information which will ensure responsible reporting with a minimum burden.

PRIVATE COMPANIES FUNDING THE ABOVE ACTIVITIES

Question: How have the private companies funded these activities?

Answer: We assume that such cooperative activities are funded through participation in the industry's trade/information gathering association, CHIAA.

RECOGNIZING COSTS OF THESE FUNCTIONS IN REIMBURSEMENT RATES

Question: Does FCIC recognize the costs of these functions in the expense reimbursement rates for companies?

Answer: Yes, but not separately since the companies are reimbursed for insurance activities only on an industry wide basis at a rate which reflects the necessary costs for doing business.

COMPLICATED PROGRAM

Question: We have heard numerous complaints from farmers and agents that the FCIC program is very complicated and that the rates and rules are neither filed by your deadlines nor early enough to permit timely purchasing decisions by farmers or to allow the agents time to adequately market the insurance program. Have filings been done timely and would you say the program today is more or less complex than it was 4 or 5 years ago?

Answer: Actuarial filing dates normally are 90 days or more before the final sales date. Some filing dates were extended during the past year to allow adequate time to evaluate rates or policy terms and conditions. These extensions normally have been for 30 days, which still leaves 60 days or more before sales closing. The actuarial filing date applies only to insureds serviced by the agency sales and service contractors. The reinsured companies operating under Multiple Peril Crop Insurance do not have a similar provision. FCIC makes the actuarial documents available to the Crop Hail Insurance Actuarial Association (CHIAA) at the same time as these papers enter distribution to the agency contractors. CHIAA is responsible for distribution to the reinsured companies and agents. We do not have data concerning the dates that CHIAA has provided the documents to the MPCI system.

The individual producer and agent may regard the program as more complex than it was 4 or 5 years ago because of the requirement that production and acreage data be provided by the insured. There always has been a requirement that this data be available if the insured wished to subdivide units under the unit division guidelines.

Agricultural production is a complex enterprise. Management plays a key role in determining outcomes. It is unlikely that simple processes will serve the needs of either the insured or the insurer.

PHASEOUT OF ADMINISTRATIVE & OPERATING EXPENSES & PREMIUM SUBSIDY

Question: In your testimony, you indicated that under proposed legislation, the Governments's cost of the program would be reduced by about $114 million for reduced administrative and operating expenses and about $20 million from reduced premium subsidy. Who will be paying these costs?

Answer: The budget submitted under proposed legislation assumes that administrative and operating expenses and premium subsidy will be phased out over a five-year period beginning in F.Y. 1987, and that these expenses will be included in the premium rates charged the producer.

REDUCTION IN STAFFING LEVELS

Question: I am concerned that you are proposing to add almost $115 million of administrative and operating cost into the farmers' premiums without any significant reduction in the staffing levels of the agency. Would you please provide some reasoning for this approach?

Answer: Staffing levels for the Corporation are projected at 1,000 in F.Y. 1987. The staff-year usage in F.Y. 1982 was in excess of 1,600. The staff-years utilized will continue to decline as the premium volume written on FCIC paper decreases.

REDUCTIONS IN ADMINISTRATIVE COSTS AND STAFFING LEVELS

Question: How much will you be reducing administrative cost by reducing the size of the FCIC permanent staffing levels in 1987 in order to reflect the decrease in premium volume during the past 5 years?

Answer: The FCIC has had an on-going program of reducing staff levels to reflect the decrease in premium volume on FCIC paper. Since 1982, staff-year utilization has been reduced from 1,624 to 1,100 in 1986. Staffing levels will be further reduced by 300 staff years between 1987 and 1989.

Question: Is there opportunity to realize additional savings by further reductions in staffing levels and associated costs?

Answer: Yes. If the proposed legislation is passed, we would anticipate that by the end of 1991 FCIC would consist of a small housekeeping staff. This staff would be responsible for processing any outstanding claims and for the orderly shut down of FCIC operations.

COMPARISON OF STAFFING AND PREMIUM LEVELS - 1981 VERSUS 1986

Question: How does the full-time staffing level and volume of direct written (FCIC policies) business compare today with say 1981?

Answer: The Corporation is estimating for 1986, the total staff-years expended will be 1,100, and that the premium on FCIC policies will be about $75 million. This compares with 1,510 staff-years expended in 1981, and a premium level of $366.4 million. During the same period, FCIC's internal administrative and operating costs were reduced by $10 million.

RATIO OF ADMINISTRATIVE COSTS TO PREMIUM - BY DELIVERY SYSTEM

Question: How do the administrative and operating costs compare between delivering the protection for a dollars' worth of premiums through FCIC policies vs. through private companies?

Answer: For 1986, it is estimated that the ratio of administrative cost to premium for FCIC policies is .44. This factor includes costs for functions which primarily involve the MMA delivery system, Field Operations Offices, agents' commissions, loss adjustment contractors, claims, and program management and compliance.

The same ratio for reinsurance operations for 1986 is .31. This ratio includes reinsurance administrative expense and loss adjustment reimbursements, and program management and compliance. Both ratios have been adjusted due to reductions per P.L. 99-177, Gramm/Rudman/Hollings.

It should be noted that the above ratios do not include any cost for the actuarial, underwriting, and program development functions, and do not include those management and support costs which cannot be precisely allocated to either of the two delivery systems.

DELIVERY SYSTEM COST COMPARISONS - FYs 1985, 1986 AND 1987

Question: I am interested in more details about the cost breakdown of insuring through the MPCI system versus FCIC policies. I have heard that the direct costs of administering FCIC policies are about double the amount by which you provide expense reimbursement to companies that you reinsure. Please provide me with the following figures for 1985 and projected figures for 1986 and 1987.

(a) The number of full-time staff equivalent for personnel who are primarily involved in the direct delivery of FCIC policies.

(b) The direct cost of delivering FCIC policies in dollars and as a percent of premium.

(c) The same as in "a" and "b" for FCIC to administer and fund reinsurance.

(d) Number of personnel and cost of your actuarial functions.

(e) Number of personnel whose job cannot be primarily allocated to either delivery of FCIC policies or administration of reinsurance. This will include, I would presume, your administrative support and perhaps a few other functions.

(f) The cost of those functions listed in "e" above.

Answer: We will submit to the subcommittee statistical data which will be in response to questions "a" through "f".
[The information follows:]

	1985	1986	1987
	(dollars in thousands)		
(a) Number of full-time staff equivalent for personnel primarily involved in direct delivery of FCIC policies:			
(1) Field Operation Offices	629.2	481.6	376.6
(2) Agents' Commissions (MMA's)	0.0	0.0	0.0
(3) Loss Adjustment Contractors	0.0	0.0	0.0
(4) Claims	62.0	40.0	40.0
(5) Program Management and compliance	2.5	5.5	5.5
--Total, Full-Time Staff Equivalent	693.7	527.1	422.1
(b) Direct costs of delivering FCIC policies:			
--Dollar Amount (Direct Cost):			
(1) Field Operations Offices	$21,382	$16,255	$12,608*
(2) Agents' Commissions (MMA's)	17,711	11,257	1,318
(3) Loss Adjustment Contractors	10,317	6,114	2,084
(4) Claims	1,026	1,053	1,053
(5) Program Management and Compliance	117	270	312
Reductions, P. L. 99-177, Gramm/Rudman		1,600	
--Total, Direct Costs, FCIC Policies	$50,533	$33,349	$17,375
--Premium	$118,000	$75,045	$8,784
--Direct cost as % of Premium	42.84%	44.44%	197.80%*

*NOTE: the Corporation estimates that after 1987 the entire premium level will be delivered by private reinsured companies. However, the existing field structure has been phased out over a longer period rather than projecting RIF's, which causes the ratio of direct cost to premium for the MMA delivery system to be so high.

(c) Number of full-time staff equivalent for personnel primarily involved in direct delivery of MPCI policies (reinsurance):			
(1) Program Management and Compliance	7.6	16.5	16.5
(2) Reins. Admin. Expense Reimbursement	0.0	0.0	0.0
(3) Reinsurance Loss Adjustment	0.0	0.0	0.0
--Total, Full-Time Staff Equivalent	7.6	16.5	16.5
Direct costs of delivering MPCI policies:			
--Dollar Amount (Direct Cost):			
(1) Program Management and compliance	$349	$810	$1,287
(2) Reins. Admin. Expense Reimbursement	77,783	136,082	184,581

	1985	1986	1987
	(dollars in thousands)		
(3) Reinsurance Loss Adjustment.........	25,105	0 1/	0 1/
Reductions, P. L. 99-177, Gramm/Rudman..		-5,500	
--Total, Direct Costs, MPCI Policies.........	$103,237	$131,392	$185,868
--Premium..................................	$325,000	$425,255	$576,816
--Direct Cost as % of Premium...............	31.77%	30.90%	32.22%

1/ Beginning with the 1986 Reinsurance Agreement, the amount reimbursed to the reinsured companies is a flat rate of 30%, with no specific amount specified in the reinsurance agreement for loss adjustment functions.

	1985	1986	1987
(d) Actuarial functions:			
--Number of personnel (Full-Time Staff Equivalent):			
(1) Actuarial Services..................	40.1	26.0	26.0
(2) Actuarial Statistics................	0.0	23.0	23.0
(3) Product Control & Undrwriting Standards........................	20.4	26.0	26.0
(4) Field Underwriting..................	0.0	3.0	3.0
(5) Field Underwriting--Field Offices...	159.7	132.0	132.0
(6) ASCS Agreement......................	0.0	0.0	0.0
--Total, Full-Time Staff Equivalent.........	220.2	210.0	210.0
--Cost:			
(1) Actuarial Services..................	$2,424	$9,490	$1,243
(2) Actuarial Statistics................	0	1,053	1,053
(3) Product Control & Underwriting Standards........................	821	1,297	1,297
(4) Field Underwriting..................	0	165	165
(5) Field Underwriting--Field Offices...	5,873	6,312	6,312
(6) ASCS Agreement......................	16,911	6,614	4,257
Reductions, P. L. 99-177, Gramm/Rudman..		-2,318	
--Total Cost, Actuarial Functions..........	$26,029	$22,613	$14,327

It should be noted that the following personnel and associated costs support both delivery systems and cannot be precisely allocated to either delivery system.

	1985	1986	1987
(e) Number of personnel whose job cannot be primarily allocated to either delivery of FCIC policies nor administration of reinsurance (Full-Time Staff Equivalent):			
(1) Program Management & Compliance.....	16.3	6.0	6.0
(2) Compliance--Field Offices...........	0.0	94.0	94.0
(3) Management & Admin. Support.........	168.9	206.4	206.4
(4) Data Automation.....................	101.0	70.0	70.0
--Total, Full-Time Staff Equivalent.........	286.2	376.4	376.4
(f) Cost of functions listed in (e):			
(1) Program Management & Compliance.....	$1,278	$351	$351
(2) Compliance--Field Offices...........	0	3,728	3,739
(3) Management & Administrative Support.	11,125	12,942	12,992
(4) Data Automation.....................	7,386	5,233	5,233
--Total Cost, Management, Administrative Support and Other......................	$19,789	$22,254	$22,315
Total Cost, FCIC...........................	$199,608	$209,608	$239,885

RESOURCE NEEDS - SHIFT TO ALL REINSURANCE

Question: How much of the functions in "e" and "f" will not be needed (cost and personnel) if the shift to reinsurance is completed? In other words what would you see as the composition of FCIC in say 1989 if FCIC is on schedule for completing the transition to the private sector as proposed?

Answer: Based on existing legislation and assuming the Corporation is on schedule with the shift to all reinsurance, we are estimating a total of 800 staff-years and $288.6 million for administrative expenses will be required in 1989. Of the total staff-years and total administrative expenses, it is estimated that 348 staff-years and $20.5 million administrative expenses will be required for the functions listed in (e) and (f).

Most of the staff-year and administrative cost reductions in 1989, if the Corporation is on schedule with the shift to all reinsurance, will be in the field structure. For example, 377 staff-years and $12.6 million administrative expenses will be needed in 1987 for the field operations offices, and the estimate in 1989 is 200 staff-years and $6.7 million administrative expenses.

APH RECORDS

Question: What percentage of the policyholders have submitted Actual Production History production records? Through 1985?

Answer: In crop year 1985, approximately 70 percent of all insureds were on Transitional or "t" yields. This means that approximately 30 percent of eligible insureds exercised their right to submit APH records to qualify for yields based on their proven records.

Question: Estimated through 1986?

Answer: Inasmuch as the Sales Closing Date for most spring-planted field crops has just passed (April 15), there is no way to estimate what percentage of crop year 1986 crops qualified for APH guarantees compared with "t" yields.

COMPANY AND AGENT SATISFACTION WITH APH PROGRAM

Question: How satisfied are the companies and agents with the APH Program and their role in administering them?

Answer: MPCI verifying companies, through their association representatives, have expressed concern about the record requirement which is central to the APH program, and have requested additional compensation to handle verification paperwork. However, most company officials and agents recognize what we have been saying for some time... and what academicians and others are echoing now... that the APH concept is the best hope to address adverse selection and other program inequities, and build a strong and stable crop insurance program that can offer risk protection alternatives for farmers.

We would be foolish to think, however, that the compensation and records issues have been laid to rest. The marketing implications of those issues almost assures that they will be resurrected at an appropriate time.

The need to simplify and reduce the paperwork burden is one which we recognize and are working on.

Just as a life insurance agent, or other property and casualty insurance agents, require verifiable information regarding the object of their insurance, we must be certain of the liability that we assume. We can continue to simplify, but records are at the heart of any insurance program.

Question: How has this program affected their workload and the remuneration that they receive?

Answer: There is no doubt that additional paperwork is involved in the APH program. We are, however, gradually developing ways to reduce both the burden of obtaining records and the method of furnishing the information necessary. We have, for instance, simplified the presentation of production records by creating a producer certification form rather than requiring independently provided proof of production through the ASCS or others. We are working to further simplify this process and are sensitive to the industry's needs in this regard.

Only a year ago, the private insurance industry was demanding the responsibility for handling the APH yield verification system because the costs to private agents of working with ASCS were prohibitive as well as constricting to their sales effort. With the exception of agreeing to pay for costs associated with the electronic transfer of verified data from MPCI verifying companies through CHIAA to FCIC's Field Actuarial Offices, which substantially reduces FCIC costs and resource requirements, FCIC has not agreed to compensate the companies for any additional verification or APH work.

CANCELLATION OF POLICIES WITH NO PRODUCTION RECORDS

Question: It is my understanding that you plan to cancel policies for farmers who do not submit production records under the APH coverage plan, is that correct?

Answer: APH procedure requires that insureds submit current year production data, or they may choose to skip the most recent year and end their ten-year data base with the preceding year. If insureds fail to submit required production evidence within the current two-year timeframe, and further fail to respond to advance notices to that effect, they will be cancelled. In such cases, FCIC believes that the insured will have made a conscious decision to not carry crop insurance. No insureds have as yet been cancelled under this policy; the earliest potential cancellation date will occur in 1987.

COVERAGE FOR GROWERS WITH NO YIELD RECORDS

Question: In view of the fact that after the 1986 crop year low interest disaster loans will no longer be available to growers eligible for crop insurance, will you continue to privide for a basic coverage for the growers who do not want to fool around with submitting yield records?

Answer: Crop insurance coverage is now available on nearly every major commercially grown crop in every major growing area in America, including every county and crop formerly covered under the ASCS disaster program. All told, about 20,000 county crop programs are avalilable, offering risk protection unparalleled in American history.

A few short years ago, this kind of extensive coverage was a pipe dream, primarily due to spiralling costs and dwindling participation resulting from adverse selection.

APH addressed adverse selection by offering guarantees commensurate with production ability, at costs equated with risk. Because of APH, farmers can look forward to long term stability in the crop insurance program, with virtual universal availability. This is becoming increasingly important as crop insurance becomes the Federal government's primary risk management program.

Records are a critical element in the APH program. Therefore, records are critical to the long-term stability of the program. We are confident that serious commercial farmers will maintain adequate production records regardless of their interest in crop insurance, and will make them available for crop insurance coverage that equates guarantees with ability, and rates with risk.

Question: Why or why not?

Answer: As I have noted, the lack of an alternative to crop insurance may well serve to encourage producers to participate in the insurance program. It may be that for such producers an alternative to an actual production history based yield guarantee might be developed, however, it would require careful crafting to avoid encouraging adverse selection such as we experienced under area average based production guarantees. It is critical to continue on the course of basing liability on actuarially acceptable factors in order to run a sound program.

1986 RATE INCREASES

Question: Relative to rating, I understand that you imposed very substantial rate increases for 1986 crops in broad areas. What actuarial research did you utilize in making these changes?

Answer: Rate adjustments for wheat, barley, oats, corn, soybeans, and cotton were developed from a mathematical model. This model was based upon recommendations of Milliman and Robertson, Inc., Consulting Actuaries, in their report to the FCIC. The model provides a process to estimate an appropriate catastrophic loading, to adjust insurance experience to current programs, and to provide credibility weighted rates.

Rates for selected crops and states were changed on the basis of loss ratio adjustments since the mathematical model requires much time to complete the analysis. Criteria were used to select the appropriate crops and states in such a manner that the indicated rate adjustment should be relatively comparable to that made by formal mathematical analysis. The loss ratio approach is sometimes used for insurance rate-making. It requires careful judgement and application.

EXTENT OF RATE CHANGES

Question: What is the extent of rate changes (base rates) not considering the premium subsidy modification that you plan on making?

Answer: Rate adjustments ranged from a decrease of up to 5 percent to an increase of up to 35 percent. All rate adjustments were done by state or region and were based on national, regional, and state historical experience.

ACTUARIAL RESEARCH TO IMPROVE 1987 RATING

Question: What actuarial research did you complete this past year to help improve the rating for 1987?

Answer: Actuarial research during FY 1985 was done to implement previous reports, such as the mathematical rate-making model. Activities also were done in support of the impact of unit division under the guidelines on insurance experience. In general, all activities were extremely short term and were designed only to support current program objectives.

A hiring freeze deferred planned recruitment of analysts to support a research function. These positions were announced in the first quarter of FY 1986 and should be filled during the second quarter. Immediate contributions to a viable research program in support of long-range objectives will depend upon the skills and experience of the applicants FCIC can attract.

PRIVATE COMPANY PARTICIPATION IN RATE CHANGES

Question: To what extent did the private companies that are evidently expected to become much more involved in administering the program participate in and concur with the rating actions?

Answer: The private companies had advised FCIC that rate increases were needed on several occasions. Concurrence on the specific rate actions was not sought.

QUESTION SUBMITTED BY SENATOR ABDNOR

STATUS OF STUDY OF COMBINING YIELDS OF WINTER AND SPRING WHEAT

Question: I placed an amendment on the Senate version of the farm bill which directed the Secr etary of Agriculture to conduct a study of the practice of combining yields of winter and spring wheat to determine producer benefits. This amendment also directs USDA to examine the feasibility of providing coverage for winterkill of winter wheat. The Secretary was directed to report back to Congress within 180 days of enactment of the farm bill, What is the status of this study?

Answer: A study on the FCIC practice of combining yields of winter and spring wheat coverage in specified northern counties is in progress and will be complete by June 1, 1986.

Because the counties in western South Dakota and other northern states are in a seasonal transitional zone, where both winter and spring wheat are grown, FCIC has just one wheat policy with a required replanting provision. In other wheat growing areas we either have a spring wheat policy or a winter wheat policy. Because winter wheat yields in these areas fluctuate widely and with great regularity because of the severe winters we require growers to replant the crop when practical. This practice helps to reduce FCIC's potential liability on the wheat acreage. The grower benefits from the practice because it has a moderating effect on the premium FCIC must collect to offset losses. If FCIC offered both a spring and a winter wheat policy, the premiums for winter wheat insurance would be substantially higher even though spring and winter wheat yields may be roughly equal.

QUESTIONS SUBMITTED BY SENATOR SPECTER

FCIC FUNCTIONS WHEN INSURANCE IS FULLY PRIVATIZED

Question: You are proposing to fully privatize crop insurance by 1991. What functions will the agency provide assuming that crop insurance is fully privatized?

Answer: Assuming that crop insurance is fully privatized by 1991, the FCIC would cease to exist.

PREMIUM INCREASES - PROPOSED LEGISLATION

Question: You are proposing legislation that will increase the producers' share of premium cost over a five-year period? Please provide for the record the premium increases that farmers will have to pay to obtain insurance coverage.

Answer: We will be happy to submit to the subcommittee a copy of our analyses which will reflect the premium increases over a five-year period that farmers will have to pay for insurance coverage. [The information follows:]

FEDERAL CROP INSURANCE CORPORATION--IMPACT OF PHASE-OUT OF PREMIUM SUBSIDY AND ADMINISTRATIVE EXPENSES--FY 1987-91 Page 1 of 3

						1ST YEAR PHASE-OUT					
	CURRENT (CROP YEAR 1985)					NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses	
	Insured Acres (000)	Total Premium ($000)	Premium Subsidy 0.23417 ($000)	Farmer Premium 0.76583 ($000)	Farmer Premium Per Acre	Premium Subsidy 0.119536 ($000)	Farmer Premium 0.880464 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre
Almonds	52	$3,492	$818	$2,674	$51.74	$556	$4,092	73	$56.21	$5,003	$68.73
Apples	16	1,775	416	1,360	83.72	282	2,080	23	90.95	2,544	111.21
Barley	3,114	16,204	3,795	12,410	3.99	2,578	18,989	4,386	4.33	23,219	5.29
Beans	316	3,905	914	2,990	9.46	621	4,576	445	10.28	5,595	12.57
Citrus	60	2,573	603	1,971	32.62	409	3,015	85	35.44	3,687	43.33
Citrus Trees	10	293	69	224	22.06	47	343	14	23.96	420	29.30
Combined Crop	139	343	80	263	1.89	55	402	196	2.06	492	2.52
Corn	12,191	113,845	26,659	87,186	7.15	18,112	133,406	17,173	7.77	163,124	9.50
Cotton	1,391	20,089	4,704	15,385	11.06	3,196	23,540	1,960	12.01	28,784	14.69
Cotton, ELS	3	82	19	62	19.38	13	96	5	21.05	117	25.74
Cranberry	1	185	43	142	141.68	29	217	1	153.90	265	188.18
Flax	94	461	108	353	3.77	73	540	132	4.10	660	5.01
Forage Seeding	2	6	2	5	3.01	1	8	2	3.27	9	4.00
Forage Production	1	6	1	5	3.32	1	7	2	3.61	9	4.41
Grain Sorghum	2,253	14,876	3,483	11,392	5.06	2,367	17,432	3,174	5.49	21,315	6.72
Grapes	51	2,065	484	1,582	31.25	329	2,420	71	33.95	2,959	41.51
Grapes, Table	14	1,491	349	1,142	84.06	237	1,747	19	91.31	2,137	111.65
Hybrid Seed	372	10,226	2,395	7,831	21.05	1,627	11,983	524	22.86	14,652	27.96
Oats	333	1,355	317	1,038	3.12	216	1,588	469	3.39	1,942	4.14
Peaches	32	1,789	419	1,370	42.17	285	2,096	46	45.80	2,563	56.01
Peanut	629	15,484	3,626	11,858	18.85	2,463	18,144	886	20.47	22,186	25.03
Peas, Dry	27	211	49	161	5.90	34	247	38	6.41	302	7.84
Peas, Green	55	701	164	537	9.76	112	822	78	10.60	1,005	12.96
Pepper	3	427	100	327	115.59	68	500	4	125.56	611	153.53
Popcorn	37	390	91	299	8.09	62	457	52	8.79	559	10.75
Potatoes	107	3,520	824	2,695	25.26	560	4,124	150	27.44	5,043	33.55
Prevented Planting	1	1	0	1	1.18	0	2	1	1.28	2	1.57
Raisins	273	9,434	2,209	7,224	26.49	1,501	11,054	384	28.77	13,517	35.18
Rice	144	1,130	265	866	5.99	180	1,324	203	6.51	1,619	7.96
Rye	4	18	4	14	3.15	3	21	6	3.42	26	4.19
Soybeans	9,686	91,629	21,457	70,172	7.25	14,577	107,372	13,643	7.87	131,291	9.62
Sugar Beets	112	1,931	452	1,479	13.17	307	2,262	158	14.30	2,766	17.49
Sugarcane	26	841	197	644	24.33	134	986	37	26.43	1,205	32.32
Sunflowers	804	4,974	1,165	3,809	4.74	791	5,829	1,133	5.15	7,127	6.29
Sweet Corn	25	310	73	237	9.46	49	363	35	10.27	444	12.56
Sweet Corn, Fresh Mkt	6	111	26	85	13.58	18	130	9	14.75	159	18.04
Tobacco	276	18,159	4,252	13,907	50.38	2,889	21,279	389	54.73	26,019	66.92
Tomatoes--Fresh	11	1,919	449	1,470	132.23	305	2,249	16	143.63	2,750	175.63
Tomatoes--Processed	58	3,303	774	2,530	43.85	526	3,871	81	47.63	4,733	58.24
Walnuts	3	98	23	75	22.68	16	115	5	24.63	141	30.12
Wheat	15,947	90,348	21,157	69,191	4.34	14,373	105,871	22,464	4.71	129,455	5.76
Subtotal (Excls P.R.)	48,681	440,000	103,035	336,965	6.92	70,000	515,600	68,574	7.52	630,459	9.19
% ADDL COST PER ACRE TO FARMER									8.626%	114,859	32.824%

FEDERAL CROP INSURANCE CORPORATION--IMPACT OF PHASE-OUT OF PREMIUM SUBSIDY AND ADMINISTRATIVE EXPENSES--FY 1987-91

	2ND YEAR PHASE-OUT						3RD YEAR PHASE-OUT					
	NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses		NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses	
	Premium Subsidy 0.053846 ($000)	Farmer Premium 0.946154 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre	Premium Subsidy 0.05 ($000)	Farmer Premium 0.95 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre
Almonds	$278	$4,881	81	$60.40	$6,367	$78.79	$278	$5,277	87	$60.65	$7,287	$83.75
Apples	141	2,481	25	97.73	3,237	127.49	141	2,683	27	98.13	3,705	135.50
Barley	1,289	22,649	4,868	4.65	29,546	6.07	1,289	24,491	5,243	4.67	33,818	6.45
Beans	311	5,458	494	11.04	7,119	14.41	311	5,901	532	11.09	8,149	15.31
Citrus	205	3,597	94	38.08	4,692	49.68	205	3,889	102	38.24	5,370	52.80
Citrus Trees	23	410	16	25.75	534	33.59	23	443	17	25.85	612	35.70
Combined Crop	27	480	217	2.21	626	2.88	27	519	234	2.22	716	3.06
Corn	9,056	159,124	19,061	8.35	207,575	10.89	9,056	172,061	20,527	8.38	237,568	11.57
Cotton	1,598	28,079	2,176	12.91	36,628	16.84	1,598	30,361	2,343	12.96	41,924	17.89
Cotton, ELS	6	114	5	22.62	149	29.51	6	123	5	22.72	170	31.37
Cranberry	15	259	2	165.38	337	215.74	15	280	2	166.06	386	229.30
Flax	37	644	146	4.41	840	5.75	37	697	157	4.42	962	6.11
Forage Seeding	1	9	3	3.51	12	4.58	1	10	3	3.53	13	4.87
Forage Production	1	9	2	3.88	12	5.06	1	10	2	3.89	13	5.38
Grain Sorghum	1,183	20,792	3,523	5.90	27,123	7.70	1,183	22,483	3,794	5.93	31,045	8.18
Grapes	164	2,887	79	36.48	3,766	47.59	164	3,121	85	36.63	4,310	50.58
Grapes, Table	119	2,084	21	98.12	2,719	128.00	119	2,254	23	98.52	3,112	136.05
Hybrid Seed	813	14,293	582	24.57	18,645	32.05	813	15,455	626	24.67	21,341	34.06
Oats	108	1,894	521	3.64	2,471	4.75	108	2,048	561	3.65	2,828	5.04
Peaches	142	2,500	51	49.22	3,261	64.21	142	2,703	55	49.42	3,733	68.25
Peanut	1,232	21,642	984	22.00	28,231	28.70	1,232	23,401	1,059	22.09	32,313	30.50
Peas, Dry	17	294	43	6.89	384	8.99	17	318	46	6.92	440	9.56
Peas, Green	56	980	86	11.39	1,279	14.86	56	1,060	93	11.44	1,464	15.79
Pepper	34	596	4	134.93	778	176.01	34	645	5	135.48	890	187.07
Popcorn	31	545	58	9.45	711	12.33	31	590	62	9.49	814	13.10
Potatoes	280	4,919	167	29.49	6,417	38.47	280	5,319	180	29.61	7,345	40.88
Prevented Planting	0	2	1	1.38	2	1.80	0	2	1	1.39	3	1.91
Raisins	750	13,185	426	30.92	17,200	40.33	750	14,257	459	31.05	19,687	42.87
Rice	90	1,580	226	7.00	2,061	9.13	90	1,708	243	7.02	2,359	9.70
Rye	1	25	7	3.68	33	4.80	1	27	7	3.69	37	5.10
Soybeans	7,289	128,072	15,144	8.46	167,068	11.03	7,289	138,484	16,308	8.49	191,224	11.73
Sugar Beets	154	2,698	176	15.37	3,520	20.05	154	2,918	189	15.43	4,029	21.31
Sugarcane	67	1,176	41	28.40	1,533	37.05	67	1,271	45	28.52	1,755	39.38
Sunflowers	396	6,953	1,257	5.53	9,070	7.21	396	7,518	1,354	5.55	10,381	7.67
Sweet Corn	25	433	39	11.04	565	14.40	25	469	42	11.08	647	15.30
Sweet Corn, Fresh Mkt	9	155	10	15.85	203	20.68	9	168	11	15.92	232	21.98
Tobacco	1,444	25,381	432	58.81	33,109	76.72	1,444	27,445	465	59.05	37,897	81.54
Tomatoes--Fresh	153	2,683	17	154.35	3,500	201.35	153	2,901	19	154.98	4,006	214.00
Tomatoes--Processed	263	4,617	90	51.18	6,023	66.77	263	4,992	97	51.39	6,894	70.97
Walnuts	8	137	5	26.47	179	34.53	8	149	6	26.58	205	36.70
Wheat	7,187	126,281	24,934	5.06	164,732	6.61	7,187	136,548	26,852	5.09	188,550	7.02
Subtotal (Excls P.R.)	35,000	615,000	76,115	8.08	802,257	10.54	35,000	665,000	81,968	8.11	918,255	11.20
% ADDL COST PER ACRE TO FARMER				16.730%	187,257	52.273%				17.207%	253,255	61.843%

FEDERAL CROP INSURANCE CORPORATION--IMPACT OF PHASE-OUT OF PREMIUM SUBSIDY AND ADMINISTRATIVE EXPENSES--FY 1987-91

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	4TH YEAR PHASE-OUT						5TH YEAR PHASE-OUT					
	NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses		NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses	
	Premium Subsidy 0 ($000)	Farmer Premium 1 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre	Premium Subsidy 0 ($000)	Farmer Premium 1 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre
Almonds	$0	$5,952	93	$63.04	$8,393	$90.03	$0	$6,309	99	$63.04	$9,063	$91.14
Apples	0	3,026	29	103.30	4,267	145.67	0	3,228	31	103.30	4,600	147.46
Barley	0	27,621	5,617	4.92	38,951	6.93	0	29,463	5,992	4.92	42,060	7.02
Beans	0	6,656	570	11.67	9,386	16.46	0	7,099	608	11.67	10,135	16.66
Citrus	0	4,386	109	40.25	6,186	56.76	0	4,679	116	40.25	6,679	57.46
Citrus Trees	0	508	19	27.22	704	38.38	0	533	20	27.22	761	38.85
Combined Crop	0	585	250	2.34	825	3.29	0	624	267	2.34	891	3.34
Corn	0	194,054	21,993	8.82	273,651	12.44	0	206,991	23,459	8.82	295,494	12.60
Cotton	0	34,242	2,510	13.64	48,287	19.24	0	36,525	2,678	13.64	52,142	19.47
Cotton, ELS	0	139	6	23.91	196	33.72	0	148	6	23.91	212	34.14
Cranberry	0	315	2	174.00	445	246.49	0	336	2	174.00	480	249.53
Flax	0	786	169	4.66	1,108	6.57	0	838	180	4.66	1,196	6.65
Forage Seeding	0	11	3	3.71	15	5.24	0	12	3	3.71	17	5.30
Forage Production	0	11	3	4.10	15	5.78	0	12	3	4.10	16	5.85
Grain Sorghum	0	25,357	4,065	6.24	35,757	8.80	0	27,047	4,334	6.24	38,611	8.90
Grapes	0	3,520	91	38.56	4,964	54.37	0	3,755	97	38.56	5,361	55.04
Grapes, Table	0	2,542	25	103.71	3,584	146.25	0	2,711	26	103.71	3,870	148.05
Hybrid Seed	0	17,430	671	25.97	24,580	36.62	0	18,592	716	25.97	26,542	37.07
Oats	0	2,310	601	3.85	3,258	5.42	0	2,464	641	3.85	3,518	5.49
Peaches	0	3,049	59	52.02	4,299	73.36	0	3,252	63	52.02	4,642	74.27
Peanut	0	26,393	1,135	23.25	37,218	32.79	0	28,152	1,211	23.25	40,189	33.19
Peas, Dry	0	359	49	7.28	506	10.27	0	383	53	7.28	547	10.40
Peas, Green	0	1,195	99	12.04	1,686	16.98	0	1,275	106	12.04	1,820	17.19
Pepper	0	727	5	142.61	1,026	201.10	0	776	5	142.61	1,107	203.58
Popcorn	0	665	67	9.99	938	14.08	0	709	71	9.99	1,013	14.26
Potatoes	0	5,999	192	31.17	8,460	43.95	0	6,399	205	31.17	9,135	44.49
Prevented Planting	0	2	2	1.46	3	2.06	0	2	2	1.46	4	2.08
Raisins	0	16,080	492	32.68	22,675	46.08	0	17,152	525	32.68	24,485	46.65
Rice	0	1,926	261	7.39	2,717	10.43	0	2,055	278	7.39	2,933	10.56
Rye	0	30	8	3.89	43	5.48	0	32	8	3.89	46	5.55
Soybeans	0	156,185	17,473	8.94	220,249	12.60	0	166,598	18,638	8.94	237,830	12.76
Sugar Beets	0	3,291	203	16.24	4,641	22.90	0	3,510	216	16.24	5,011	23.19
Sugarcane	0	1,434	48	30.02	2,022	42.33	0	1,529	51	30.02	2,183	42.85
Sunflowers	0	8,479	1,451	5.84	11,957	8.24	0	9,044	1,548	5.84	12,911	8.34
Sweet Corn	0	529	45	11.67	745	16.45	0	564	48	11.67	805	16.65
Sweet Corn, Fresh Mkt	0	190	11	16.75	267	23.62	0	202	12	16.75	289	23.92
Tobacco	0	30,953	498	62.16	43,649	87.65	0	33,016	531	62.16	47,133	88.73
Tomatoes--Fresh	0	3,272	20	163.14	4,614	230.05	0	3,490	21	163.14	4,982	232.89
Tomatoes--Processed	0	5,630	104	54.10	7,940	76.29	0	6,006	111	54.10	8,574	77.23
Walnuts	0	168	6	27.98	236	39.45	0	179	6	27.98	255	39.94
Wheat	0	154,001	28,770	5.35	217,169	7.55	0	164,268	30,688	5.35	234,594	7.64
Subtotal (Excls P.P.)	0	750,000	87,023	8.54	1,057,633	12.04	0	800,000	93,670	8.54	1,142,054	12.19
% ADDL COST PER ACRE TO FARMER				23.376%	307,633	73.981%				23.376%	342,054	76.127%

FEDERAL CROP INSURANCE CORPORATION--IMPACT OF PHASE-OUT OF PREMIUM SUBSIDY AND ADMINISTRATIVE EXPENSES--FY 1987-91 Page 1 of 3

	CURRENT (CROP YEAR 1985)					1ST YEAR PHASE-OUT					
						NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses	
	Insured Acres (000)	Total Premium ($000)	Premium Subsidy 0.23417 ($000)	Farmer Premium 0.76583 ($000)	Farmer Premium Per Acre	Premium Subsidy 0.119536 ($000)	Farmer Premium 0.880464 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre
Alabama	493	$7,295	$1,708	$5,587	$11.33	$1,161	$8,548	694	$12.31	$10,453	$15.05
Alaska	0	0	0	0	0.00	0	0	0	0.00	0	0.00
Arizona	24	472	111	361	15.06	75	553	34	16.36	676	20.01
Arkansas	751	10,321	2,417	7,904	10.52	1,642	12,094	1,058	11.43	14,789	13.98
California	613	21,966	5,144	- 16,822	27.44	3,495	25,740	863	29.81	31,474	36.45
Colorado	675	6,766	1,584	5,182	7.68	1,076	7,929	951	8.34	9,695	10.20
Connecticut	2	101	24	77	38.67	16	118	3	42.01	145	51.37
Delaware	28	320	75	245	8.75	51	375	39	9.51	459	11.63
Florida	183	6,135	1,437	4,698	25.67	976	7,189	258	27.89	8,791	34.10
Georgia	937	14,798	3,465	11,333	12.09	2,354	17,341	1,320	13.14	21,203	16.06
Hawaii	0	0	0	0	0.00	0	0	0	0.00	0	0.00
Idaho	252	2,211	518	1,693	6.72	352	2,591	355	7.30	3,168	8.92
Illinois	2,082	19,679	4,608	15,071	7.24	3,131	23,060	2,933	7.86	28,197	9.61
Indiana	1,249	11,720	2,744	8,976	7.19	1,865	13,734	1,759	7.81	16,793	9.54
Iowa	6,010	50,786	11,893	38,893	6.47	8,080	59,512	8,466	7.03	72,769	8.60
Kansas	3,413	23,093	5,408	17,685	5.18	3,674	27,061	4,808	5.63	33,089	6.88
Kentucky	351	6,168	1,444	4,724	13.46	981	7,228	494	14.62	8,838	17.88
Louisiana	404	6,200	1,452	4,748	11.75	986	7,265	569	12.77	8,884	15.61
Maine	47	1,452	340	1,112	23.66	231	1,701	66	25.70	2,081	31.43
Maryland	39	419	98	321	8.23	67	491	55	8:94	600	10.93
Massachusetts	3	152	36	116	38.80	24	178	4	42.15	218	51.54
Michigan	138	1,438	337	1,101	7.98	229	1,685	194	8.67	2,060	10.60
Minnesota	3,383	25,763	6,033	19,730	5.83	4,099	30,190	4,765	6.34	36,915	7.75
Mississippi	642	8,152	1,909	6,243	9.72	1,297	9,553	904	10.56	11,681	12.92
Missouri	2,254	23,317	5,460	17,857	7.92	3,710	27,323	3,175	8.61	33,410	10.52
Montana	4,586	24,591	5,758	18,833	4.11	3,912	28,816	6,460	4.46	35,235	5.45
Nebraska	4,095	35,600	8,336	27,264	6.66	5,664	41,717	5,768	7.23	51,010	8.84
Nevada	2	20	5	15	7.66	3	23	3	8.32	29	10.17
New Hampshire	0	1	0	1	0.00	0	1	0	0.00	1	0.00
New Jersey	12	140	33	107	8.93	22	164	17	9.71	201	11.87
New Mexico	106	965	226	739	6.97	154	1,131	149	7.57	1,383	9.26
New York	26	487	114	373	14.34	77	571	37	15.58	698	19.05
North Carolina	641	17,758	4,158	13,600	21.22	2,825	20,809	903	23.05	25,445	28.18
North Dakota	7,042	35,947	8,418	27,529	3.91	5,719	42,123	9,920	4.25	51,507	5.19
Ohio	674	5,490	1,286	4,204	6.24	873	6,433	949	6.78	7,866	8.29
Oklahoma	983	7,429	1,740	5,689	5.79	1,182	8,705	1,385	6.29	10,645	7.69
Oregon	376	1,358	318	1,040	2.77	216	1,591	530	3.00	1,946	3.67
Pennsylvania	70	919	215	704	10.05	146	1,077	99	10.92	1,317	13.35
Rhode Island	0	10	2	8	0.00	2	12	0	0.00	14	0.00
South Carolina	319	7,023	1,645	5,378	16.86	1,117	8,230	449	18.31	10,063	22.39
South Dakota	1,357	9,131	2,138	6,993	5.15	1,453	10,700	1,912	5.60	13,083	6.84
Tennessee	84	1,393	326	1,067	12.70	222	1,632	118	13.80	1,996	16.87
Texas	2,844	29,763	6,970	22,793	8.01	4,735	34,877	4,006	8.71	42,646	10.65
Utah	29	265	62	203	7.00	42	311	41	7.60	380	9.30
Vermont	2	60	14	46	22.97	10	70	3	24.96	86	30.52
Virginia	288	5,515	1,291	4,224	14.67	877	6,463	406	15.93	7,902	19.48
Washington	874	4,401	1,031	3,370	3.86	700	5,157	1,231	4.19	6,306	5.12
West Virginia	4	50	12	38	9.57	8	59	6	10.40	72	12.72
Wisconsin	167	1,849	433	1,416	8.48	294	2,167	235	9.21	2,649	11.26
Wyoming	146	1,111	260	851	5.83	177	1,302	206	6.33	1,592	7.74
Subtotal (Excls P.R.)	48,700	440,000	103,035	336,965	6.92	70,000	515,600	68,600	7.52	630,459	9.19
% ADDL COST PER ACRE TO FARMER									8.626%	114,859	32.824%

FEDERAL CROP INSURANCE CORPORATION--IMPACT OF PHASE-OUT OF PREMIUM SUBSIDY AND ADMINISTRATIVE EXPENSES--FY 1987-91

	2ND YEAR PHASE-OUT						3RD YEAR PHASE-OUT					
	NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses		NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses	
	Premium Subsidy 0.053846 ($000)	Farmer Premium 0.946154 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre	Premium Subsidy 0.05 ($000)	Farmer Premium 0.95 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre
Alabama	$580	$10,196	771	$13.23	$13,301	$17.26	$580	$11,025	830	$13.28	$15,224	$18.34
Alaska	0	0	0	0.00	0	0.00	0	0	0	0.00	0	0.00
Arizona	38	660	38	17.58	861	22.93	38	713	40	17.65	985	24.38
Arkansas	821	14,426	1,174	12.29	18,818	16.03	821	15,599	1,265	12.34	21,539	17.03
California	1,747	30,702	958	32.03	40,051	41.79	1,747	33,199	1,032	32.16	45,842	44.41
Colorado	538	9,457	1,055	8.96	12,337	11.69	538	10,226	1,137	9.00	14,120	12.42
Connecticut	8	141	3	45.14	184	58.89	8	153	3	45.33	211	62.59
Delaware	25	447	44	10.22	583	13.33	25	484	47	10.26	668	14.17
Florida	488	8,575	286	29.97	11,186	39.09	488	9,272	308	30.09	12,803	41.55
Georgia	1,177	20,684	1,465	14.12	26,981	18.42	1,177	22,365	1,578	14.18	30,883	19.57
Hawaii	0	0	0	0.00	0	0.00	0	0	0	0.00	0	0.00
Idaho	176	3,090	394	7.84	4,031	10.23	176	3,342	424	7.88	4,614	10.87
Illinois	1,565	27,506	3,255	8.45	35,881	11.02	1,565	29,742	3,506	8.48	41,069	11.72
Indiana	932	16,381	1,953	8.39	21,369	10.94	932	17,713	2,103	8.42	24,459	11.63
Iowa	4,040	70,985	9,397	7.55	92,599	9.85	4,040	76,756	10,120	7.58	105,987	10.47
Kansas	1,837	32,278	5,336	6.05	42,106	7.89	1,837	34,902	5,747	6.57	48,194	8.39
Kentucky	491	8,621	549	15.71	11,246	20.49	491	9,322	591	15.77	12,872	21.78
Louisiana	493	8,666	632	13.72	11,305	17.90	493	9,370	680	13.78	12,939	19.02
Maine	116	2,030	73	27.62	2,647	36.03	116	2,194	79	27.73	3,030	38.29
Maryland	33	586	61	9.60	764	12.53	33	633	66	9.64	874	13.32
Massachusetts	12	212	5	45.29	277	59.08	12	230	5	45.48	317	62.80
Michigan	114	2,010	216	9.32	2,622	12.15	114	2,173	232	9.35	3,001	12.92
Minnesota	2,049	36,010	5,289	6.81	46,974	8.88	2,049	38,937	5,696	6.84	53,766	9.44
Mississippi	648	11,394	1,004	11.35	14,864	14.81	648	12,321	1,081	11.40	17,013	15.74
Missouri	1,855	32,591	3,524	9.25	42,514	12.06	1,855	35,240	3,795	9.29	48,661	12.82
Montana	1,956	34,372	7,170	4.79	44,837	6.25	1,956	37,166	7,722	4.81	51,320	6.65
Nebraska	2,832	49,759	6,403	7.77	64,910	10.14	2,832	53,805	6,895	7.80	74,295	10.78
Nevada	2	28	3	8.94	36	11.66	2	30	3	8.98	42	12.39
New Hampshire	0	1	0	0.00	2	0.00	0	2	0	0.00	2	0.00
New Jersey	11	176	19	10.43	255	13.61	11	212	20	10.47	292	14.46
New Mexico	77	1,349	166	8.14	1,759	10.62	77	1,458	178	8.17	2,014	11.28
New York	39	681	41	16.74	888	21.84	39	736	44	16.81	1,016	23.22
North Carolina	1,413	24,821	1,002	24.77	32,378	32.31	1,413	26,839	1,079	24.87	37,060	34.34
North Dakota	2,859	50,244	11,010	4.56	65,543	5.95	2,859	54,329	11,857	4.58	75,019	6.33
Ohio	437	7,674	1,054	7.28	10,010	9.50	437	8,297	1,135	7.31	11,457	10.10
Oklahoma	591	10,384	1,537	6.76	13,545	8.81	591	11,228	1,655	6.78	15,504	9.37
Oregon	108	1,898	588	3.23	2,476	4.21	108	2,052	633	3.24	2,834	4.48
Pennsylvania	73	1,285	109	11.74	1,676	15.31	73	1,389	118	11.78	1,918	16.27
Rhode Island	1	14	0	0.00	18	0.00	1	15	0	0.00	21	0.00
South Carolina	559	9,816	499	19.68	12,805	25.67	559	10,614	537	19.76	14,657	27.29
South Dakota	726	12,763	2,122	6.02	16,649	7.85	726	13,800	2,285	6.04	19,056	8.34
Tennessee	111	1,947	131	14.82	2,540	19.34	111	2,105	141	14.89	2,907	20.55
Texas	2,368	41,601	4,447	9.36	54,267	12.20	2,368	44,983	4,789	9.39	62,114	12.97
Utah	21	370	45	8.17	483	10.66	21	401	49	8.20	553	11.33
Vermont	5	84	3	26.82	109	34.98	5	91	3	26.93	125	37.18
Virginia	439	7,708	450	17.12	10,056	22.33	439	8,335	485	17.19	11,509	23.73
Washington	350	6,151	1,367	4.50	8,024	5.87	350	6,652	1,472	4.52	9,185	6.24
West Virginia	4	70	6	11.17	91	14.58	4	76	7	11.22	104	15.49
Wisconsin	147	2,584	261	9.90	3,371	12.91	147	2,795	281	9.94	3,859	13.72
Wyoming	88	1,553	228	6.60	2,026	8.87	88	1,679	246	6.83	2,319	9.43
Subtotal (Excls P.R.)	35,000	615,000	76,144	8.08	802,257	10.54	35,000	665,000	82,000	8.11	918,255	11.20
% ADDL COST PER ACRE TO FARMER				16.730%	187257	52.273%				17.207%	253255	61.843%

FEDERAL CROP INSURANCE CORPORATION--IMPACT OF PHASE-OUT OF PREMIUM SUBSIDY AND ADMINISTRATIVE EXPENSES--FY 1987-91 Page 3 of 3

	4TH YEAR PHASE-OUT						5TH YEAR PHASE-OUT					
	NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses		NET-RISK PREMIUM				GROSS PREMIUM Includes Admin. & Operating Expenses	
	Premium Subsidy 0 ($000)	Farmer Premium 1 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre	Premium Subsidy 0 ($000)	Farmer Premium 1 ($000)	Insured Acres (000)	Farmer Premium Per Acre	Farmer Premium ($000)	Farmer Premium Per Acre
Alabama	$0	$12,435	869	$13.98	$17,535	$19.72	$0	$13,264	949	$13.98	$18,935	$19.96
Alaska	0	0	0	0.00	0	0.00	0	0	0	0.00	0	0.00
Arizona	0	805	43	18.58	1,135	26.20	0	858	46	18.58	1,225	26.53
Arkansas	0	17,593	1,355	12.99	24,809	18.31	0	18,765	1,445	12.99	26,789	18.54
California	0	37,442	1,106	33.86	52,800	47.74	0	39,938	1,180	33.86	57,014	48.33
Colorado	0	11,533	1,218	9.47	16,264	13.36	0	12,302	1,299	9.47	17,562	13.52
Connecticut	0	172	4	47.71	243	67.29	0	184	4	47.71	262	68.12
Delaware	0	545	51	10.80	769	15.23	0	582	54	10.80	831	15.42
Florida	0	10,457	330	31.68	14,747	44.67	0	11,155	352	31.68	15,924	45.22
Georgia	0	25,224	1,690	14.92	35,570	21.04	0	26,905	1,803	14.92	38,409	21.30
Hawaii	0	0	0	0.00	0	0.00	0	0	0	0.00	0	0.00
Idaho	0	3,769	455	8.29	5,315	11.69	0	4,020	485	8.29	5,739	11.83
Illinois	0	33,544	3,756	8.93	47,303	12.59	0	35,780	4,006	8.93	51,078	12.75
Indiana	0	19,977	2,253	8.87	28,171	12.50	0	21,309	2,403	8.87	30,420	12.66
Iowa	0	86,567	10,842	7.98	122,075	11.26	0	92,338	11,565	7.98	131,819	11.40
Kansas	0	39,363	6,157	6.39	55,509	9.02	0	41,987	6,568	6.39	59,940	9.13
Kentucky	0	10,514	633	16.60	14,826	23.41	0	11,215	675	16.60	16,010	23.70
Louisiana	0	10,568	729	14.50	14,903	20.45	0	11,273	777	14.50	16,093	20.70
Maine	0	2,475	85	29.19	3,490	41.16	0	2,640	90	29.19	3,769	41.67
Maryland	0	714	70	10.15	1,007	14.31	0	762	75	10.15	1,086	14.49
Massachusetts	0	259	5	47.87	365	67.51	0	276	6	47.87	395	68.34
Michigan	0	2,451	249	9.85	3,457	13.88	0	2,615	266	9.85	3,732	14.06
Minnesota	0	43,914	6,103	7.20	61,927	10.15	0	46,842	6,510	7.20	66,870	10.27
Mississippi	0	13,895	1,158	12.00	19,595	16.92	0	14,822	1,235	12.00	21,159	17.13
Missouri	0	39,745	4,066	9.77	56,047	13.78	0	42,395	4,337	9.77	60,521	13.95
Montana	0	41,916	8,273	5.07	59,110	7.14	0	44,711	8,825	5.07	63,828	7.23
Nebraska	0	60,682	7,388	8.21	85,572	11.58	0	64,727	7,880	8.21	92,403	11.73
Nevada	0	34	4	9.45	48	13.32	0	36	4	9.45	52	13.49
New Hampshire	0	2	0	0.00	2	0.00	0	2	0	0.00	3	0.00
New Jersey	0	239	22	11.02	337	15.54	0	255	23	11.02	363	15.74
New Mexico	0	1,645	191	8.60	2,320	12.13	0	1,755	204	8.60	2,505	12.28
New York	0	830	47	17.70	1,171	24.96	0	885	50	17.70	1,264	25.26
North Carolina	0	30,269	1,156	26.18	42,685	36.91	0	32,287	1,233	26.18	46,072	37.37
North Dakota	0	61,273	12,704	4.82	86,406	6.80	0	65,358	13,551	4.82	93,[illegible]03	6.89
Ohio	0	9,358	1,216	7.70	13,196	10.85	0	9,982	1,297	7.70	14,250	10.99
Oklahoma	0	12,663	1,773	7.14	17,857	10.07	0	13,507	1,892	7.14	19,283	10.19
Oregon	0	2,315	678	3.41	3,264	4.81	0	2,469	724	3.41	3,525	4.87
Pennsylvania	0	1,566	126	12.40	2,209	17.49	0	1,671	135	12.40	2,385	17.71
Rhode Island	0	17	0	0.00	24	0.00	0	18	0	0.00	26	0.00
South Carolina	0	11,971	575	20.80	16,881	29.33	0	12,769	614	20.80	18,229	29.70
South Dakota	0	15,564	2,448	6.36	21,948	8.97	0	16,602	2,611	6.36	23,700	9.08
Tennessee	0	2,374	152	15.67	3,348	22.10	0	2,533	162	15.67	3,616	22.37
Texas	0	50,732	5,131	9.89	71,542	13.94	0	54,115	5,473	9.89	77,252	14.12
Utah	0	452	52	8.63	637	12.18	0	482	56	8.63	688	12.33
Vermont	0	102	4	28.35	144	39.97	0	109	4	28.35	156	40.47
Virginia	0	9,401	520	18.09	13,256	25.51	0	10,027	554	18.09	14,315	25.83
Washington	0	7,502	1,577	4.76	10,579	6.71	0	8,002	1,682	4.76	11,423	6.79
West Virginia	0	85	7	11.81	120	16.66	0	91	8	11.81	130	16.86
Wisconsin	0	3,152	301	10.46	4,444	14.75	0	3,362	321	10.46	4,799	14.93
Wyoming	0	1,894	263	7.19	2,671	10.14	0	2,020	281	7.19	2,884	10.26
Subtotal (Excls P.R.)	0	750,000	87,857	8.54	1,057,633	12.04	0	800,000	93,714	8.54	1,142,054	12.19
% A'JL COST PER ACRE TO FARMER				23.376%	307633	73.981%				23.376%	342054	76.127%

QUESTION SUBMITTED BY SENATOR BUMPERS

ESTABLISHMENT OF FIELD OFFICE IN ARKANSAS

Question: During the first session of the 99th Congress I introduced a bill, S. 81, to establish a separate FCIC field office in Arkansas. Arkansas is one of the largest states in terms of FCIC activity and in fact the activity in my State exceeds that in some other states which have their own offices. Service is quite slow, and I continue to believe our need justifies the presence of a field office. What is your position on this?

Answer: We are continuing to monitor our business levels in relation to the need for field offices. As you know the share of business on private company contracts has increased significantly. This is particularly true in the case of Arkansas. The Arkansas FCIC premium has declined from $14.0 million in 1983 to $5.1 million in 1984, and to $1.4 million in 1985. This was due largely to conversion from FCIC paper to MPCI paper. MPCI premium in 1985 totalled $8.9 million. From the 1984 crop year to the 1985 crop year, we have reduced districts in Arkansas from 4 to 3. Likewise, we have reduced field representatives from 8 to 3 and quality control personnel from 4 to 3. Our number of loss adjusters in Arkansas has been reduced from 58 to 22. Twenty-two states now have more FCIC premium than Arkansas. In reviewing our records, we find that the percent of claims in Arkansas signed by producers within nine days or less of their notice of loss was 72.5% compared to a national average of 63%. The percent of corrected claims was 2.7% compared to a national average of 6%. In view of the significant drop in workload and our above average service record, we feel it would not be advisable under these circumstances to consider expansion of our field office system into Arkansas.

QUESTIONS SUBMITTED BY SENATOR HARKIN

1987 PROGRAM LEVEL

Question: The proposed 1987 program level is $585.6 million for 68.6 million acres. What share of your revenue comes from Federal funds?

Answer: Of the $585.6 million in premium estimated for crop year 1987, it is estimated that about $151.3 million will be required for premium subsidy, and will be requested by appropriation.

Question: On the spending side, what do you estimate will be the total administrative costs and indemnities to producers?

Answer: Administrative expenses for fiscal year 1987 are estimated at approximately $240 million. Indemnities on the crop year 1987 program are estimated at $527 million.

CHANGE IN NUMBER OF FARMERS INSURED DUE TO PHASE OUT

Question: During and after the five-year phase out period, do you estimate that the number of farmers insured will decrease because of increases in premium costs? If so, to what extent?

Answer: Coverage, not cost, has been a major disincentive to participation in the past. The introduction of the Actual Production History program (APH) eliminates this disincentive. At the same time there has been increasing farmer recognition of crop insurance as an important risk management tool. Further, the increasingly widespread lender requirements for crop insurance as collateral for production loans lead us to estimate that participation will increase by approximately 9% between 1987 and 1991.

RURAL ELECTRIFICATION ADMINISTRATION

STATEMENT OF HAROLD V. HUNTER, ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION

PREPARED STATEMENT

Senator COCHRAN. Mr. Hunter, we appreciate your being here, and we invite you to proceed now with any comments you wish to make. We have your written statement, which we thank you for. It will be included at this point in the record without objection.

[The statement follows:]

STATEMENT OF HAROLD V. HUNTER

Mr. Chairman and members of the Committee, it is a privilege to appear before this Committee in support of the Rural Electrification Administration's (REA) annual budget and program proposals. I have a short statement and then I would be happy to answer any questions.

REA has achieved many of the goals established by the Congress. It has succeeded in bringing quality electric and telephone service to rural America. Through REA's direct loan and loan guarantee programs approximately $62 billion has been provided to rural electric and telephone utilities. Today's statistics attest to the success of the REA program.

Loan Program	Miles of Lines	Consumers/ Subscribers	U.S. Population Served	Farms with Service
Electric.....	2,082,100	10,836,400	11%	98.8%
Telephone....	868,300	4,746,900	4%	96.0%

Both electric and telephone borrowers' financial operations have steadily improved in recent years. We recognize that other rural economic indicators are negative and the agriculture community is suffering some losses. The margins of the borrowers are sufficient to absorb an increase in the borrowers' cost of operations without further adversely affecting the economics of the agricultural community. Over the last two decades the number of consumers served by REA borrowers has doubled from about 7 million to 14 million while the overall population in rural America has declined. REA borrowers have avoided many of the problems encountered by other sectors of rural America.

REA Telephone borrowers have prospered dramatically during the Reagan years. They have experienced substantial improvements in their revenue flows, thereby increasing the level of internally generated funds available for construction of any new facilities, if needed.

Telephone
(dollars in millions)

Year	Total Operating Revenues	Total Net Margins (Regulated)	Net Margins as a % of Total Revenue	Equity/ Assets	Times Interest Earned Ratio
1981	$2,042	$262	12.8	25%	2.34
1984	2,910	446	15.3	29%	2.77

REA electric distribution borrowers have also done well during these last 5 years.

Electric -Distribution Borrowers
(dollars in millions)

Year	Total Operating Revenues	Total Net Margins (Composite)	Net Margins as a % of Total Revenue	Equity/ Assets	Times Interest Earned Ratio
1981	$ 7,706	$413	5.5	30%	2.09
1984	10,812	884	8.2	34%	2.69

The consistently favorable financial trends reflected above for REA borrowers, both Electric and Telephone, illustrate that reduction in federal financing assistance will not jeopardize the economic health of these two industries.

REA power supply borrowers have invested some $20 billion for the 26,000 megawatts of generating capacity now in service. While most of the 63 REA generation and transmission cooperatives are on a stable course, several are experiencing serious financial problems arising from their participation in the construction of major generating facilities. REA is working with these troubled generation and transmission borrowers and is providing assistance consistent with program objectives and consumers' needs.

U.S. agriculture is currently experiencing severe economic stress while the Federal Government is striving to bring its fiscal affairs into balance. At the same time, the rural electric and rural telephone industries have been enjoying a relatively prosperous era due to substantial interest subsidies and service to non-rural areas. Given the economic crisis facing the U.S. agricultural community, it is unreasonable to expect the Federal Government to continue to subsidize the prosperity of REA borrowers, particularly without regard for the wide variance in revenue potential among borrowers. This cannot be reconciled with the goal to diminish the federal burden upon the taxpayer.

The budget proposal is consistent with the President's goal of reducing federal expenditures and increasing the use of private capital markets. This will contribute to a reduction in the federal deficit; a goal I know all of us are working to achieve.

The 1987 Budget Proposals

Loan Programs

The proposed budget estimates reflect a continued decrease in anticipated loan demand. As elsewhere in the electric industry, REA borrowers have surplus generating capacity and project only modest growth in electric demand. The budget proposal provides for $375 million in insured electric loans and $225 million in electric loan guarantee commitments. The guaranteed funds will be used mainly to cover cost overruns on current generation projects.

The reduced loan levels in the 1987 budget proposal reflect two trends among the REA electric cooperatives.

(1) As previously stated, REA electric distribution borrowers have shown steady improvement in their financial strength. There is every reason to believe that based on the borrowers' outstanding record, they have achieved the financial strength necessary to obtain increased levels of funding through private channels. Private financing institutions, including the National Rural Utilities Cooperative Finance Corporation and the Banks for Cooperatives, are working to expand their activity in the rural utility business. With the continuing decline in interest rates, an increase in the amount of private capital from these sources will not have a significant adverse effect on the borrowers' composite interest expenses.

(2) Construction activity by REA power supply borrowers has dwindled. With excess generating capacity existing now and modest projections in electric demand, generation and transmission borrowers will not be constructing new generating facilities.

Reduced REA insured loan levels will not adversely impact the borrowers that need funds for rural electric and telephone systems, as private markets will be available to supplement the financial needs of REA borrowers. Through your efforts, the Farm Bill allows all REA electric and telephone borrowers to be eligible for loans from the Banks for Cooperatives.

For the telephone program, we are requesting $60 million in insured loans and $139 million for the Rural Telephone Bank. No funds for telephone loan guarantee commitments are being requested for 1987.

No appropriation is being proposed for the capitalization of Rural Telephone Bank stock. These funds are not needed. The Bank is allowed to borrow up to 20 times its' paid-in-capital and retained earnings.

Consistent with the 1987 proposals, we are requesting rescission of the $30 million of the Class A Stock of the Rural Telephone Bank, authorized during Fiscal Year 1986. These funds would be excess capital because the Bank has virtually unlimited authority to borrow from Treasury.

We are also proposing rescission of the $100 million in direct appropriations made available in 1986 for reimbursement to the REA revolving fund. During 1984, the year on which the appropriation is based, the revolving fund had a net cash income of more than $83 million. A reimbursement to the fund is not needed.

We are proposing to end the interest subsidy on REA loans by raising the 5 percent interest rate to the cost of money to the Treasury plus 1 1/8 percent. Treasury plus 1 1/8 percent is approximately the equivalent interest rate for AA rated utilities. Many of our borrowers could qualify for such a rate on the open market. Some, however, would receive lower ratings and would have to pay higher interest rates for private capital. These borrowers would still receive REA loans at a rate below what they would be offered on the open market. Interest expense represents between 4 and 5 percent of a borrower's total operating expenses. Market interest rates such as Treasury plus 1 1/8 percent would mean an increase of about 65 cents more per month for the average residential electric consumer - and that's just for consumers of REA borrowers who decide to undertake a major new project. Again, requests for loans are down significantly due to low electricity demand and over capacity. Most consumers will not see any change in their bills because their rural cooperative will not be borrowing money at the higher interest rate.

We are also proposing that REA assess an annual fee on all REA guaranteed power supply borrowers to cover principal and interest losses that have resulted from non-payments of borrowers.

Changes are needed in REA's loan procedures to better target the use of federal loan funds. The Office of Inspector General has indicated, and I concur, that REA should not be lending funds to financially successful utilities serving predominantly non-rural areas. Statutory language prevents REA from targeting loans to borrowers based on need. Passage by Congress last year of an amendment striking our general funds policy forces REA to lend precious resources to any applicant, regardless of the amounts of excess funds held by the borrower.

Salaries and Expenses

The Agency will require $26,355,000 for administrative expenses in FY 1987. The budget proposes to charge an upfront user fee of 5 percent on insured loans to finance the administrative costs of the agency. This fee would be deposited into the appropriate accounts and be available to offset Salaries and Expenses. In FY 1987 we expect to receive approximately $22 million from the 5 percent fee on insured loans and would require only $5 million in appropriated funds.

The budget proposal provides for a staffing level of 535, a reduction of 45 from current employment which can be achieved through normal attrition. Over the past 3 years, a period in which we have experienced a decrease in our employment levels, we have seen the time it takes to process a loan application reduced considerably. We feel that the 535 staff years will be adequate to administer the proposed programs during FY 1987.

The budget contains long-range proposals for the Congress to consider and includes a recommendation to gradually phase-out REA and RTB lending activities by 1990. It provides for appropriate staffing levels necessary to process loan applications during FY 1987 through FY 1990 and to service the approximately $38 billion in loans and loan guarantees currently outstanding.

These proposals are consistent with the Balanced Budget and Emergency Deficit Control Act of 1985 which mandates that reductions be made in the federal deficit. In view of the Nation's sound financial climate and the improved economic status of the rural utility industry, now is the time for cooperatives to become less dependent on the Federal Government and more in control of their own destiny.

In conclusion, Mr. Chairman, most REA borrowers are in the best financial condition of their history. REA has helped them build systems which fully meet the needs of today's consumers and those of the immediate future. The time has arrived for Congress to further implement the policy it set forth in the 1973 rural electrification and telephone revolving fund legislation when it said,"...rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources at reasonable rates and terms consistent with the loan applicant's ability to pay and achievement of the Act's objectives."

The Act's objectives have been met. The sources of credit are available and in place. The costs of that credit are lower now than at any time in recent memory. Most importantly, our borrowers have attained the financial strength to get credit elsewhere.

I support the President's 1987 Budget proposals for REA programs and I urge you to support them also.

This is the end of my prepared remarks. I will be happy to answer any questions.

BIOGRAPHICAL SKETCHES

DONALD L. OLSEN, ACTING ASSISTANT ADMINISTRATOR-ELECTRIC

Donald L. Olsen has been Deputy Assistant Administrator - Electric since March 1980. Mr. Olsen has been serving as Acting Assistant Administrator - Electric since July 1, 1985.

He came to REA in 1958 as an electrical engineer. Most of his early years his capabilities were applied to assessing distribution systems, both in the field and the Washington office, and in power supply planning. In 1976 Mr. Olsen became an Area Director.

A graduate of Colorado State University in Fort Collins. Mr. Olsen holds a Bachelor of Science Degree in Electrical Engineering. He has also completed a number of specialized graduate courses in the power area. He is a native of Kiowa, Colorado.

Mr. Olsen and daughter reside in Fairfax County, Virginia.

RUTH RAYMOND, DIRECTOR, OFFICE OF BUDGET

Ruth Raymond joined the Rural Electrification Administration (REA) on detail from the Farmers Home Administration (FmHA) in June 1985 as Acting Director, Office of Budget, and transferred permanently to REA in October 1985.

Prior to joining REA, Mrs. Raymond served as Chief of the Administrative Expenses Branch in the FmHA Budget Division. She began her government career in 1964 as a Budget Analyst with FmHA, and has held positions of increasing responsibility in the budget field since that time.

Mrs. Raymond is a native of New York and graduated from Bentley College in Boston, Massachusetts, in 1959. She resides with her husband in Fairfax, Virginia. They have a daughter, Lisa, who is attending the University of Delaware.

History of the Rural Electrification Administration

The Rural Electrification Administration (REA) is a credit agency of the U. S. Department of Agriculture which assists rural electric and telephone organizations in obtaining the financing required to provide electric and telephone service in rural areas. These essential services help improve the quality of life for people who live, work, or do business throughout rural America. Financial assistance may include (a) loans from REA, (b) guarantees of loans made by others, and (c) REA approval of security arrangements which permit the borrower to obtain financing from other lenders without a guarantee.

REA was first established by Executive Order 7037 on May 11, 1935, as part of a general program of unemployment relief. It soon became clear, however, that the task of extending central station electric service to rural areas required very specialized skills (engineering, management, etc.) that would be difficult to attract if REA operated under the constraints of the unemployment relief authorization. REA was given its own statutory authorization by the Rural Electrification Act of May 20, 1936. It became a part of the U. S. Department of Agriculture on July 1, 1939.

Federal support was needed to electrify rural America because most of the established utilities served high density areas and did not extend lines to farmers and other rural residents because such investments were not considered to be feasible.

When Congress established REA, its purpose was to assure that funds would be available for rural electrification. Loans were made at interest rates that fluctuated with the cost of money to the Government. It was not until 1944 that Congress established a fixed interest rate of two percent, which, at that time, was the approximate cost of money to the Government. As time went by and interest rates rose, the subsidy associated with REA loans grew. The performance of the difficult tasks involved with the initial organizing and constructing of rural electric systems was made possible by the availability of capital from REA, innovative construction techniques and the establishment of cooperatives--not by subsidized interest rates.

The purpose of REA was expanded in 1949 when REA was authorized to loan funds for telephone service in rural areas. As in the case of electricity, it became clear that rural residents would not have access to adequate and dependable telephone service unless Federal support was provided. Both the rural telephone and rural electric programs of REA have been successful in achieving their goals.

During the late 1960's and early 1970's, rural electric and telephone leaders came to realize that (a) their capital needs were growing at a very rapid rate and would very likely continue to grow, (b) it was no longer reasonable to expect the Government to meet all of their growing capital needs, and (c) they had developed sufficient financial strength to obtain a portion of their capital needs from private sources. For these reasons, supplemental sources of financing were developed for both rural electric and telephone utilities.

The National Rural Utilities Cooperative Finance Corporation (CFC) was formed in 1969 by the rural electric cooperatives. It obtains funds from the private credit markets for its loans to electric systems. As of December 31, 1984, CFC had provided more than $3.2 billion in long-term loans to its membership, which includes 947 systems. In addition to CFC, rural electric systems obtain loan funds from the Banks for Cooperatives and other private sources.

The Rural Telephone Bank (RTB) was established in 1971 by Public Law 92-12 which amended the Rural Electrification Act. It is the primary supplemental source of financing for the growing capital needs of rural telephone systems.

The Rural Telephone Bank is managed by a 13-member board of directors. The Administrator of REA serves as Governor of the Bank until conversion to private ownership, control, and operation. This will take place when 51 percent of the Class A stock issued to the United States and outstanding at any time after September 30, 1995, has been fully redeemed and retired. The

Bank board holds at least four regularly scheduled meetings a year. Activities of the Bank are carried out by REA employees and the Office of the General Counsel of the U. S. Department of Agriculture.

In 1973, a major amendment to the Rural Electrification Act established the "Rural Electrification and Telephone Revolving Fund" (RETRF) for the purpose of making loans to REA electric and telephone borrowers. The amended Act established that loans to be made from the RETRF would be at a standard rate of five percent instead of the two percent rate at which REA loans had previously been made. The two percent rate was retained as a special rate for borrowers that met criteria specified in the Act. It was also available, at the Administrator's discretion, for hardship cases.

In addition to establishing the RETRF, and increasing the interest rate on REA loans, the 1973 amendment authorized REA to guarantee loans made by other lenders. Today these loan guarantees account for most of the loan funds obtained by electrification borrowers.

The 1973 Amendment to the Act states it is the policy of the Congress that "rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources."

In 1981, Congress further amended the RE Act by eliminating the special two percent interest rate on loans to rural electric and telephone systems. Such utilities now receive loans at five percent from the RETRF, as do other borrowers. Exceptions to the five percent rate may still be made at the discretion of the REA Administrator where there is a finding of hardship.

CHRONOLOGY OF LEGISLATIVE CHANGES

RURAL ELECTRIFICATION ACT OF 1936
7 U.S.C. 901-950b

1935 The Rural Electrification Administration was created by Executive Order 7037 of May 11 under authority of the Emergency Relief Appropriation Act of 1935, approved April 8, 1935, (49 Stat. 115).

1936 Statutory provision for the agency was made in the Rural Electrification Act (RE Act) of 1936, approved May 20 (49 Stat. 1363; 7 U.S. Code, Chapter 31).

1938 Title IV of the Work Relief and Public Works Appropriation Act of 1938, approved June 21 ("RE Act of 1938," 52 Stat. 818) authorized further borrowing from the Reconstruction Finance Corporation and added a requirement that borrowers from REA agree to use materials and supplies produced in the United States.

1939 REA became part of the Department of Agriculture under Reorganization Plan II, effective July 1.

1944 Title V of the Department of Agriculture Organic Act of 1944, approved September 21 (58 Stat. 739) liberalized the terms of REA loans and removed the time limitation from its lending program.

1944 On December 23, the Rural Electrification Act was further amended to authorize REA to refinance certain rural electrification obligations owed to the Tennessee Valley Authority (58 Stat. 925).

1947 The Department of Agriculture Appropriation Act, 1948, approved July 30, (61 Stat. 546) further amended the Rural Electrification Act by transferring from the Reconstruction Finance Corporation to the Secretary of the Treasury the authority to make loans to REA.

1948 On June 29, the Rural Electrification Act was again amended to authorize REA to refinance certain additional rural electrification obligations owed to the Tennessee Valley Authority (62 Stat. 1070).

1949 On October 28, the Rural Electrification Act was further amended to authorize REA to make loans for the purpose of furnishing and improving rural telephone service (63 Stat. 948).

1955 On June 15, the Rural Electrification Act was amended by revising the formula governing the allotment of electrification loan funds (69 Stat. 131).

1962 On October 23, the Rural Electrification Act was amended by broadening the definition of telephone service (76 Stat. 1140).

1971 On May 7, the Rural Electrification Act was amended to establish a Rural Telephone Account and the Rural Telephone Bank (85 Stat. 29; 7 U.S.C. 931-950b).

1972 On June 30, the Rural Electrification Act was amended to authorize the Secretary of the Treasury to purchase Telephone Bank debentures (86 Stat. 390; 7 U.S.C. 921b).

1973 On May 11, the Rural Electrification Act was amended to establish a revolving fund for insured and guaranteed loans under Title III (87 Stat. 65; 7 U.S.C. 931-940).

1975 On November 4, the Rural Electrification Act was amended to expressly authorize the assignment of REA guarantees to the extent provided in contract of guarantee, to clarify the incontestability of the Government guarantee, and to specifically require justification of budget estimates. (89 Stat. 677; 7 U.S.C. 936; 938; and 906.)

1976 On April 21, the "Fiscal Year Adjustment Act," amended the Rural Electrification Act to reflect necessary changes in laws because of the October-September fiscal year. (90 Stat. 375; 31 U.S.C. 701 note.)

1976 On October 20, the Rural Electrification Act was amended to correct unintended inequities in the interest rate criteria and to transfer the unobligated balance of the 1973 loan authorizations to the Rural Electrification and Telephone Revolving Fund, (90 Stat. 2701; 7 U.S.C. 931; 935.)

1977 On August 4, the "Department of Energy Organization Act," added section 16 to title 1, to require the Administrator when making or guaranteeing generation or transmission loans to consider general criteria published by the Secretary of Energy. (91 Stat. 608; 7 U.S.C. 916.)

1981 On August 13, the "Omnibus Reconciliation Act of 1981," amended the Rural Electrification Act: (1) to establish a five percent interest rate, with certain exceptions, for loans from the revolving fund, and (2) to require the Federal Financing Bank to make a loan under an REA guarantee if requested by a borrower with such a guarantee. (95 Stat. 379; 7 U.S.C. 935, 936.)

1981 On December 22, the "Agriculture and Food Act of 1981," amended the Rural Electrification Act to extend for another ten years the authorization for Federal stock purchase in the Rural Telephone Bank. (95 Stat. 1347; 7 U.S.C. 946.)

PUBLIC LAW 97-35—AUG. 13, 1981 95 STAT. 357

Public Law 97-35
97th Congress

An Act

To provide for reconciliation pursuant to section 301 of the first concurrent resolution on the budget for the fiscal year 1982.

Aug. 13, 1981
[H.R. 3982]

SHORT TITLE

SECTION 1. This Act may be cited as the "Omnibus Budget Reconciliation Act of 1981".

Omnibus Budget Reconciliation Act of 1981.

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PART 4—RURAL ELECTRIFICATION ADMINISTRATION PROGRAMS

RURAL ELECTRIFICATION ACT AMENDMENTS

SEC. 165. (a) Section 305(b) of the Rural Electrification Act of 1936 (7 U.S.C. 935(b)) is amended to read as follows:

"(b) Insured loans made under this title shall bear interest at 5 per centum per annum, except that the Administrator may make insured loans to electric or telephone borrowers at a lesser interest rate, but not less than 2 per centum per annum, if, in the Administrator's sole discretion, the Administrator finds that the borrower—

Insured loans, interest rates.

"(1) has experienced extreme financial hardship; or

"(2) cannot, in accordance with generally accepted management and accounting principles and without charging rates to its customers or subscribers so high as to create a substantial disparity between such rates and the rates charged for similar service in the same or nearby areas by other suppliers, provide service consistent with the objectives of this Act.".

(b) Section 306 of the Rural Electrification Act of 1936 (7 U.S.C. 936) is amended by—

(1) inserting immediately after the second sentence the following: "With respect to guarantees issued by the Administrator under this section, on the request of the borrower of any such loan so guaranteed, the loan shall be made by the Federal Financing Bank and at a rate of interest that is not more than the rate of interest applicable to other similar loans then being made or purchased by the Bank."; and

(2) striking our "a loan insured at the standard rate" in the fourth sentence and inserting in lieu thereof "an insured loan".

(c) Section 307 of the Rural Electrification Act of 1936 (7 U.S.C. 937) is amended by striking out "a loan insured at the standard rate" and inserting in lieu thereof "an insured loan".

(d) The amendments made by subsection (a) of this section shall apply to loans the applications for which are received by the Rural Electrification Administration after July 24, 1981.

7 USC 935 note.

PUBLIC LAW 97-98—DEC. 22, 1981 95 STAT. 1213

Public Law 97-98
97th Congress

An Act

To provide price and income protection for farmers, assure consumers an abundance of food and fiber at reasonable prices, continue food assistance to low-income households, and for other purposes.

Dec. 22, 1981
[S. 884]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, with the following table of contents, may be cited as the "Agriculture and Food Act of 1981".

Agriculture and Food Act of 1981.
7 USC 1281 note.

*****

RURAL TELEPHONE BANK AMENDMENT

SEC. 1607. Section 406 of the Rural Electrification Act of 1936 (7 U.S.C. 946) is amended by—

(1) inserting in the second sentence of subsection (a) "but not later than fiscal year 1991" after "thereafter", and striking out "$300,000,000" and inserting in lieu thereof "$600,000,000"; and

(2) striking out in the first sentence of subsection (c) "September 30, 1985" and inserting in lieu thereof "September 30, 1995", and striking out "and after the amount of class A and class B stock issued totals $400,000,000,".

PROGRAM ACCOMPLISHMENTS

Extending and Improving Service

REA's programs have been very successful in extending electric and telephone service to persons in rural areas. By 1953 more than 90 percent of all farms in the U.S. had electricity; for telephone service, the 90 percent mark was passed in 1976.

Chart C-1 PERCENT OF FARMS WITH ELECTRIC AND TELEPHONE SERVICE

U.S. TOTALS

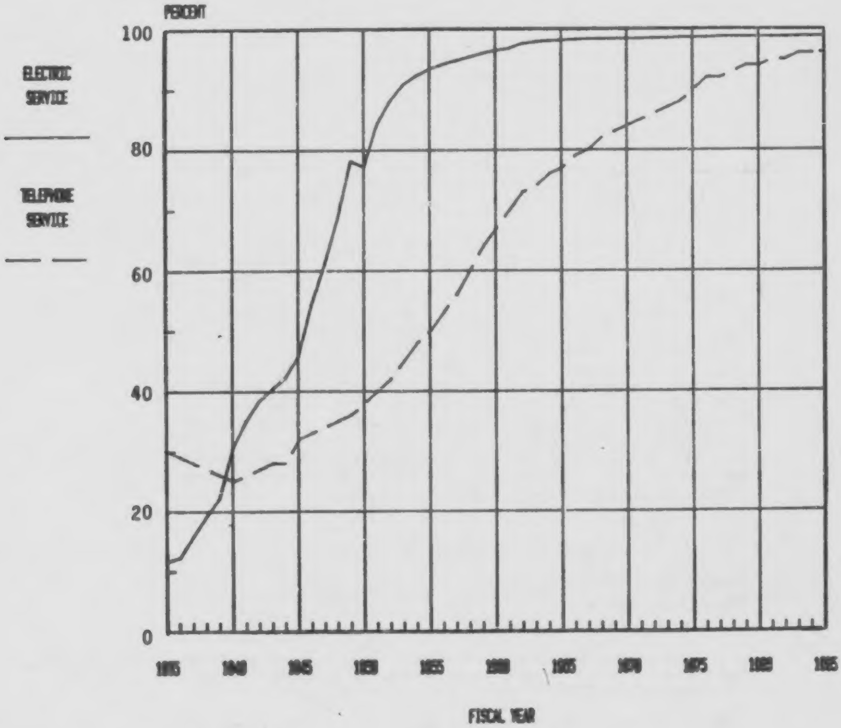


TABLE C-1 Percent of Farms with Electric and Telephone Service

Fiscal Year	Electricity	Telephone
1935	11.6%	---
1936	12.3	---
1937	15.8	---
1938	19.1	---
1939	22.1	---
1940	30.4	25%
1941	34.9	---
1942	38.3	---
1943	40.3	---
1944	42.2	---
1945	45.7	32
1946	54.3	---
1947	61.0	34
1948	68.6	35
1949	78.2	36
1950	77.2	38
1951	84.2	40
1952	88.1	42
1953	90.8	45
1954	92.3	48
1955	93.4	50
1956	94.2	53
1957	94.8	56
1958	95.4	60
1959	96.0	64
1960	96.5	67
1961	96.8	70
1962	97.6	73
1963	97.9	74
1964	98.1	76
1965	98.2	77
1966	98.3	79
1967	98.4	80
1968	98.4	82
1969	98.4	83
1970	98.4	84
1971	98.4	85
1972	98.5	86
1973	98.5	87
1974	98.6	88
1975	98.6	90
1976	98.6	92
1977	98.7	92
1978	98.7	93
1979	98.7	94
1980	98.7	94
1981	98.7	95
1982	98.7	95
1983	98.8	96
1984	98.8	96
1985	98.8	96

In addition to financing the extensions of electric and telephone service to rural areas, REA has provided credit to rural telephone utilities for system improvements that have dramatically upgraded the quality of telephone service in rural America.

Before the REA telephone program, rural telephone service was often antiquated and unreliable--even where it was available.

Today modern and reliable telephone service is available for people who live, work, or do business in rural areas. The availability of modern communications systems has improved the quality of life of rural people and has strengthened their local economies. Improvement continues as more rural residents receive single party service.

Chart C-2 GRADES OF SERVICE PROVIDED TO SUBSCRIBERS SERVICE BY REA TELEPHONE BORROWERS

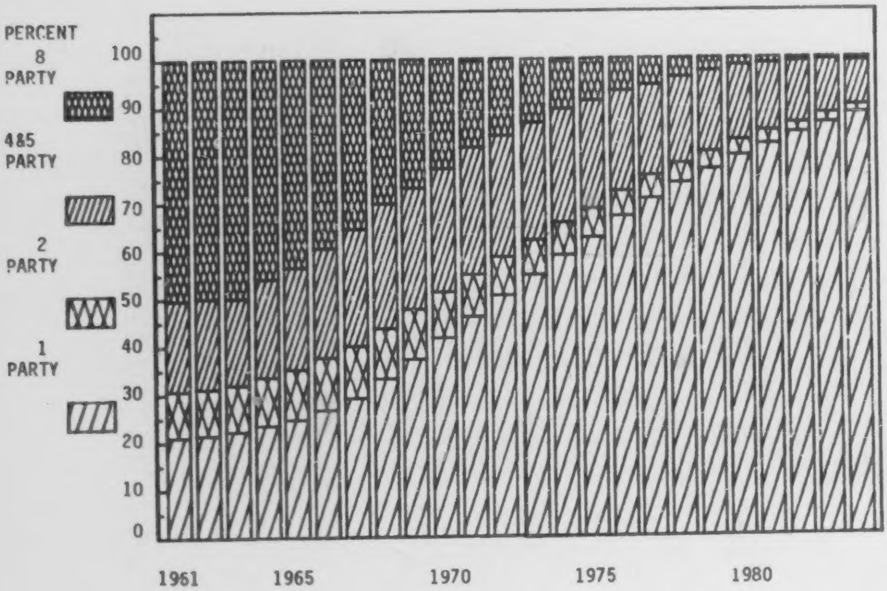


TABLE C-2 Number of Subscribers Served by REA Telephone Borrowers, by Grade of Service**

(Subscribers in thousands)

Year	One Party		Two Party		Four and Five Party		Eight Party*	
	No.	Percent	No.	Percent	No.	Percent	No.	Percent
1960	234.0	20.5	108.1	9.5	219.4	19.2	580.5	50.8
1961	269.6	20.9	124.3	9.6	246.9	19.1	650.7	50.4
1962	306.2	21.6	136.8	9.6	266.1	18.7	710.8	50.1
1963	338.2	22.2	147.6	9.7	278.4	18.3	759.2	49.8
1964	381.2	23.4	165.0	10.2	330.4	20.3	750.0	46.1
1965	428.7	24.8	182.0	10.5	362.7	21.0	752.9	43.7
1966	486.5	26.6	199.2	10.9	418.6	22.9	721.5	39.6
1967	567.1	29.2	211.8	10.9	472.4	24.3	693.0	35.6
1968	680.0	32.9	223.8	10.8	537.8	26.0	625.4	30.3
1969	810.7	37.1	227.5	10.4	560.1	25.7	586.3	26.8
1970	972.3	41.6	227.4	9.8	598.7	25.6	536.1	23.0
1971	1,117.2	46.0	217.0	8.9	642.5	26.5	452.2	18.6
1972	1,298.1	50.4	212.5	8.3	655.1	25.4	409.2	15.9
1973	1,489.9	54.7	200.4	7.3	675.2	24.8	359.5	13.2
1974	1,717.0	58.8	196.9	6.8	695.8	23.8	309.4	10.6
1975	1,909.2	62.7	183.3	6.0	685.2	22.5	267.6	8.8
1976	2,205.2	67.1	166.8	5.1	682.0	20.8	229.2	7.0
1977	2,545.6	70.7	165.2	4.6	688.7	19.1	199.6	5.6
1978	2,861.4	73.8	162.3	4.2	700.2	18.1	153.1	3.9
1979	3,122.8	76.7	153.0	3.7	691.1	17.0	104.8	2.6
1980	3,383.1	79.4	136.1	3.2	669.7	15.7	72.4	1.7
1981	3,582.6	81.9	120.9	2.7	615.6	14.1	54.9	1.3
1982	3,826.7	84.2	103.0	2.3	574.1	12.6	41.8	0.9
1983***	3,998.5	86.4	86.9	1.9	519.0	11.2	24.3	0.5
1984	4,193.2	88.3	74.7	1.6	451.0	9.5	28.0	0.6

* Includes service stations (switchers) which represent less than 1 percent of the total number of subscribers.

** To provide a more accurate representation, data for borrowers with total REA and RTB loans and REA loan guarantee commitments of less than 20 percent of their total assets have been excluded beginning in 1971.

*** Revised

Meeting the Growing Demand for Service

Rural electric and telephone systems have been able to meet an ever increasing demand for service. Each year the number of households served by REA electric and telephone borrowers has increased. In the early years this growth was mainly due to service being extended to households that had never before had electricity or telephones. More recently the growth is primarily because of the rapid population increases that have occurred in rural America--particularly in "sunbelt" and western states.

Chart C-3

NUMBER OF CONSUMERS & SUBSCRIBERS SERVED
BY REA ELECTRIC & TELEPHONE BORROWERS

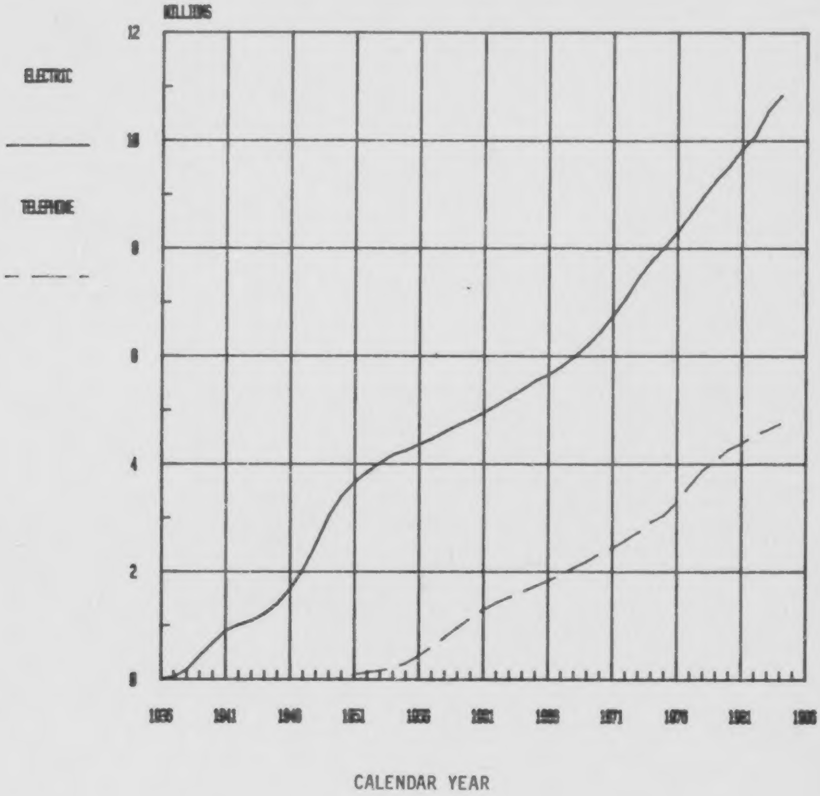


TABLE C-3

Number of Consumers and Subscribers Served by REA Electric and Telephone Borrowers (in Thousands)

Calendar Year	Electric Consumers	Telephone Subscribers
1935	---	---
1936	7.5	---
1937	43.9	---
1938	176.4	---
1939	435.6	---
1940	674.5	---
1941	902.3	---
1942	1,012.3	---
1943	1,087.8	---
1944	1,216.8	---
1945	1,408.9	---
1946	1,683.9	---
1947	2,046.1	---
1948	2,518.5	---
1949	3,040.4	---
1950	3,413.4	29.1
1951	3,666.0	86.9
1952	3,858.4	131.4
1953	4,024.8	157.4
1954	4,174.4	215.8
1955	4,251.3	296.2
1956	4,361.9	432.0
1957	4,466.4	604.7
1958	4,596.3	778.5
1959	4,721.6	958.9
1960	4,825.8	1,142.0
1961	4,955.6	1,291.5
1962	5,095.0	1,419.9
1963	5,237.9	1,523.4
1964	5,386.1	1,626.6
1965	5,541.5	1,726.4
1966	5,652.8	1,825.9
1967	5,806.0	1,944.3
1968	5,986.1	2,067.0
1969	6,197.0	2,184.6
1970	6,442.3	2,334.5
1971	6,747.7	2,428.9
1972	7,076.2	2,574.8
1973	7,457.1	2,725.0
1974	7,767.8	2,919.1
1975	8,017.7	3,045.3
1976	8,311.8	3,283.2
1977	8,630.8	3,599.1
1978	8,962.5	3,877.1
1979	9,275.1	4,072.7
1980	9,523.6	4,262.4
1981	9,844.3	4,374.9
1982	10,096.5	4,545.6
1983	10,555.4	4,628.8*
1984	10,836.4	4,746.9

*Revised

Note: The number of consumers and subscribers served is approximately equal to the number of households and business establishments served.

In the case of electricity, the strong rural demand that has historically been experienced and met by rural electric utilities can be explained in part by the fact that alternatives to electricity are not available in many nonmetropolitan areas. For this reason electricity is used for home heating and major appliances to a greater extent in nonmetro than in metro areas. In the case of new housing, electricity is being used to an increasing extent.

Chart C-4

ELECTRICITY USE FOR MAJOR APPLIANCES

METRO VS. NON-METRO

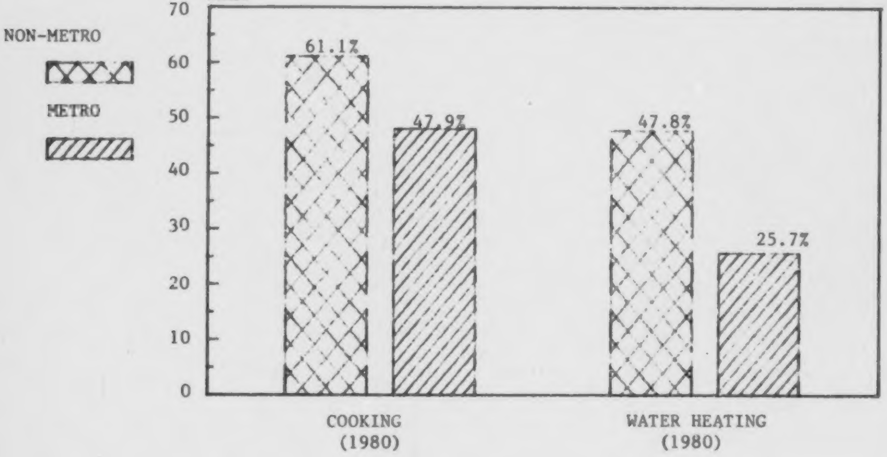
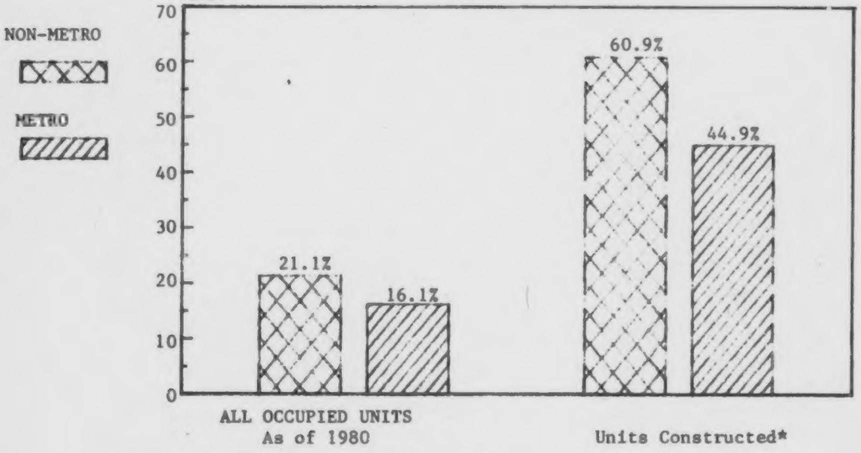


Chart C-5

ELECTRICITY USE FOR HOME HEATING

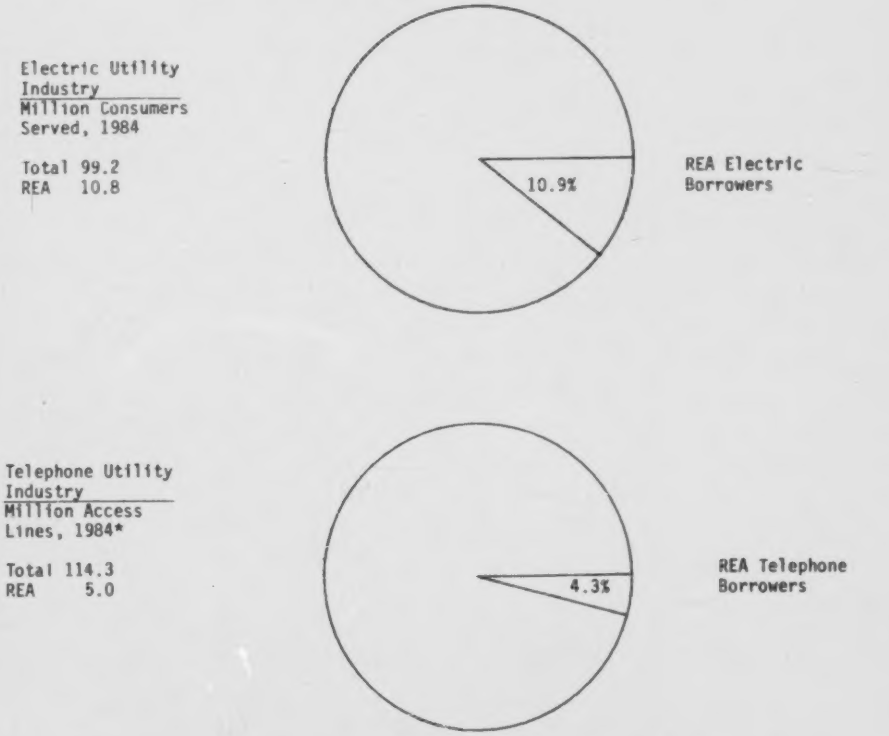
METRO VS. NON-METRO



*Privately owned single family

Today the rural electric and telephone utilities that receive financing from REA have developed into strong business organizations. Although not large when compared with many urban utilities, they are vital components of their respective industries.

Chart C-6 PERCENT OF ELECTRIC CONSUMERS AND TELEPHONE SUBSCRIBERS SERVED BY REA BORROWERS



* An access line is any line (or loop) terminating at the the telephone company central office. In prior years, estimates were based on subscribers served, however, while REA borrowers still report subscriber data, the rest of the the telephone industry does not.

LOAN STATISTICS

REA telephone borrowers have received a greater amount of their financing needs from REA loans than from other sources. These REA loans are supplemented by loans from the Rural Telephone Bank and REA guarantees of loans from other sources--mainly the Federal Financing Bank.

Chart D-1

SOURCES OF LONG-TERM FINANCING

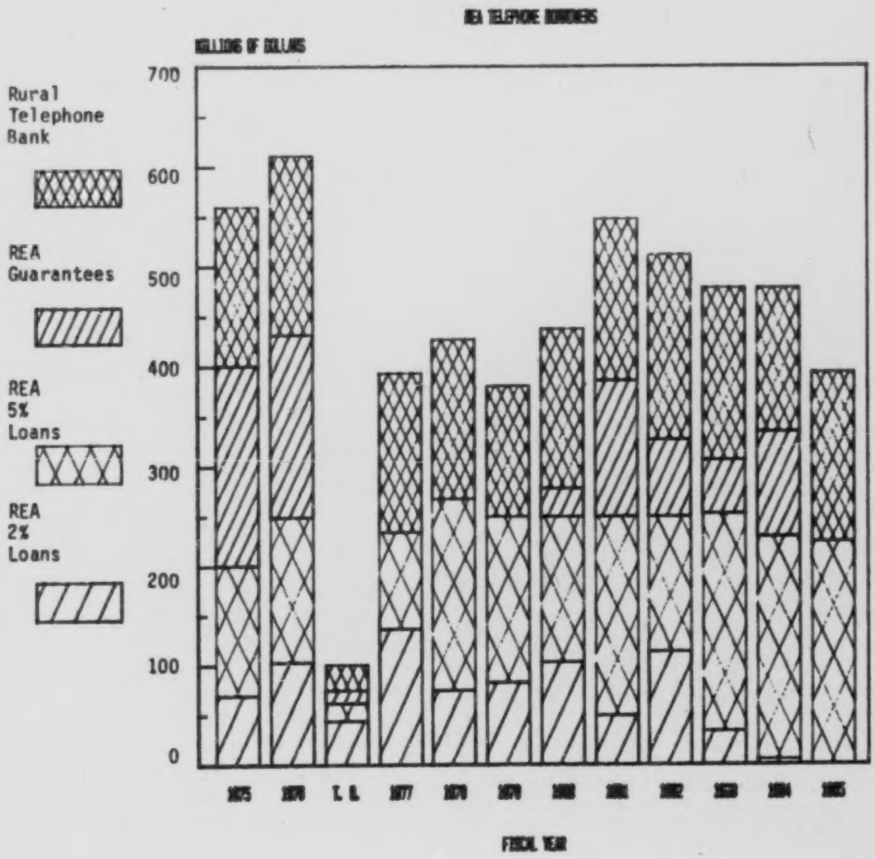


TABLE D-1

Long-Term Financing Approved
by Fiscal Year
REA Telephone Borrowers
(in millions)

Fiscal Year	REA		Non-REA		Total
	2%	5%	REA Guarantee Commitments	Rural Telephone Bank	
1971	$125.0	---	---	---	$125.0
1972	133.7	---	---	$ 91.0	224.7
1973	90.0	$ 55.0	---	150.0	295.0
1974	55.2	84.6	---	163.0	303.0
1975	70.0	129.9	$200.0	160.2	560.1
1976	103.8	146.3	181.6	180.1	612.8
TQ	43.1	19.4	12.3	26.5	101.2
1977	136.5	96.7	---	160.3	393.6
1978	74.7	191.9	---	159.2	425.8
1979	81.6	168.3	---	130.8	380.7
1980	103.2	146.9	27.4	160.0	437.5
1981	49.7	200.1	136.4	159.9	546.1
1982	113.3	136.0	77.0	184.8	511.1
1983	33.1	217.6	54.0	171.6	476.3
1984	5.8	222.8	105.1	143.0	476.7
1985	---	224.6	---	167.8	392.4

Until the 1973 amendment to the Rural Electrification Act, virtually all financing to REA electric borrowers was supplied by direct REA loans at an interest rate of two percent. Beginning in 1973 the amount of financing received by rural electric systems increased greatly and most of this financing has been approved by non-REA sources, primarily the Federal Financing Bank (FFB), with an REA guarantee, at FFB's market rate of interest. During Fiscal Year 1985, more than three-fourths of electric borrowers' financing needs were supplied by non-government sources.

Chart D-2

SOURCES OF LONG-TERM FINANCING

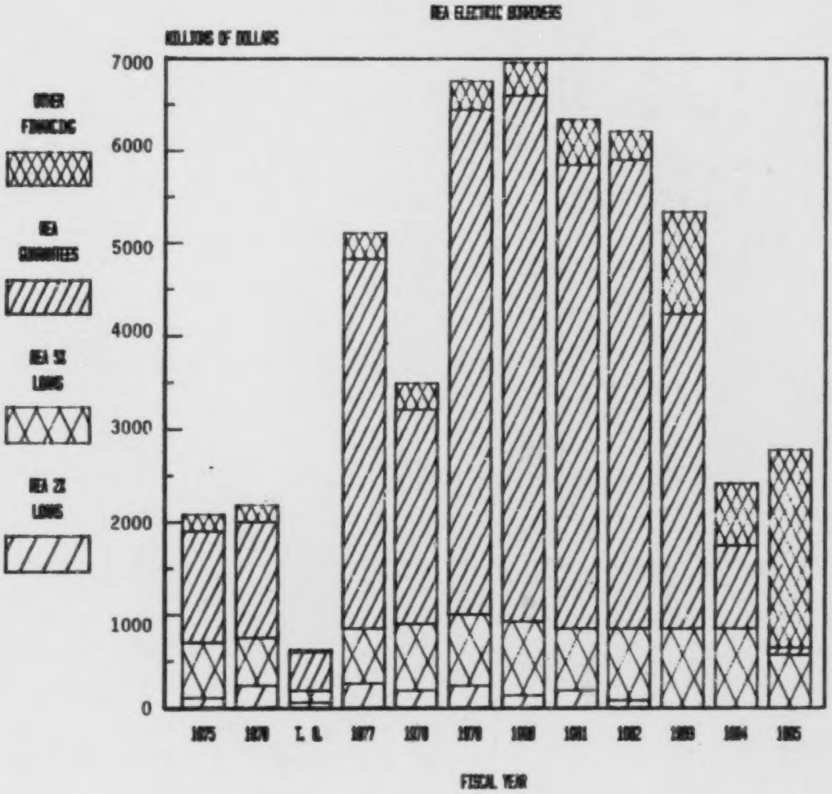


TABLE D-2

Long-Term Financing Approved by Fiscal Year REA Electric Borrowers (in millions)

Fiscal Year	REA		Non-REA		Total Long-Term Financing Approved During FY
	2%	5%	REA Guarantee Commitments	Other Financing	
1969	$344.8	---	---	---	$ 344.8
1970	345.0	---	---	---	345.0
1971	361.8	---	---	$ 12.8	374.6
1972	438.3	---	---	168.4	606.7
1973	235.1	$382.8	---	107.6	725.5
1974	65.5	553.1	$ 974.4	533.9	2,126.9
1975	105.0	595.0	1,206.3	165.0	2,071.3
1976	222.5	527.5	1,241.5	198.4	2,189.9
TQ	47.2	140.3	403.9	31.9	623.3
1977	268.2	581.8	3,985.5	278.3	5,113.8
1978	176.2	723.8	2,309.1	276.3	3,485.4
1979	222.9	777.1	5,429.7	311.9	6,741.6
1980	142.5	782.5	5,660.1	368.3	6,953.4
1981	178.3	671.7	4,994.9	503.9	6,348.8
1982*	77.8	772.2	5,064.6	304.7	6,219.3
1983*	2.7	847.3	3,388.3	1,096.5	5,334.8
1984*	12.6	837.4	897.2	656.5	2,403.7
1985	2.0	560.0	74.6	2,135.6	2,772.2

*Does not include funds made available through the provisions of the Economic Recovery Tax Acts ($629.2 million in F.Y. 1982, $526.4 million in F.Y. 1983 and $46.1 million in F.Y. 1984).

REA electric distribution borrowers receive most of their financing from REA at a five percent interest rate. The remainder is obtained from REA at interest rates as low as two percent (a very small amount since the 1981 amendment to the RE Act) and from non-REA sources such as the National Rural Utilities Cooperative Finance Corporation (CFC) and the Bank for Cooperatives.

Chart D-3

SOURCES OF LONG-TERM FINANCING

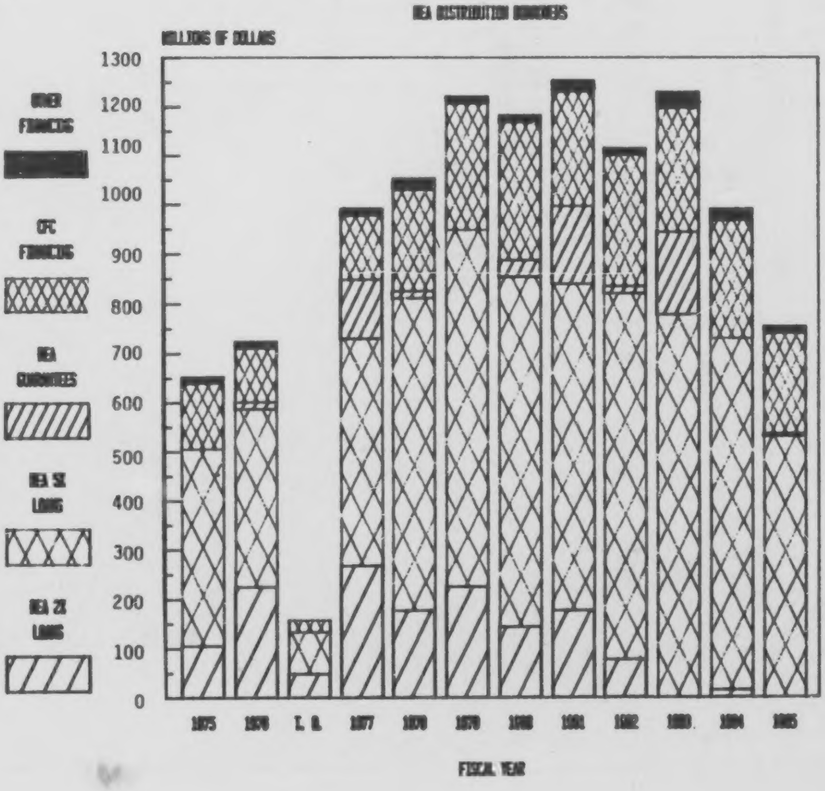


TABLE D-3

Long-Term Financing Approved
by Fiscal Year
REA Electric Distribution Borrowers
(in millions)

	REA		Non-REA			
Fiscal Year	2%	5%	REA Guarantee Commitments	CFC	Other Financing	Total Long-Term Financing Approved During FY
1969	$162.0	---	---	---	---	$ 162.0
1970	269.7	---	---	---	---	269.7
1971	222.0	---	---	$ 1.8	---	223.8
1972	282.6	---	---	50.7	$ 0.6	333.9
1973	176.8	$206.0	---	88.3	8.9	480.0
1974	65.5	347.6	---	99.9	7.1	520.1
1975	105.0	398.5	---	134.7	6.6	644.8
1976	222.5	365.9	$ 13.4	108.1	6.1	716.0
TQ	47.2	88.3	---	20.4	1.6	157.5
1977	268.2	462.1	117.8	129.9	6.6	984.6
1978	176.2	633.8	15.7	204.5	22.1	1,052.3
1979	222.9	727.5	---	254.6	13.3	1,218.3
1980	142.4	709.8	32.5	280.8	14.9	1,180.4
1981	178.3	660.5	156.3	234.5	23.3	1,252.9
1982	77.8	740.1	16.4	265.6	11.9	1,111.8
1983	2.7	774.7	164.3	252.6	37.4	1,231.7
1984	12.6	716.9	1.1	237.8	22.4	990.8
1985	2.0	526.9	5.0	205.4	13.8	753.1

REA electric power supply borrowers receive most of the financing approved by REA; almost all of this is provided by non-REA sources, mainly the Federal Financing Bank, with an REA loan guarantee. Since the 1973 amendment to the Rural Electrification Act, which gave REA the authority to guarantee loans made by other lenders, REA's program of financing for power supply projects has grown from a modest one to one of very large magnitude.

Chart D-4

SOURCES OF LONG-TERM FINANCING

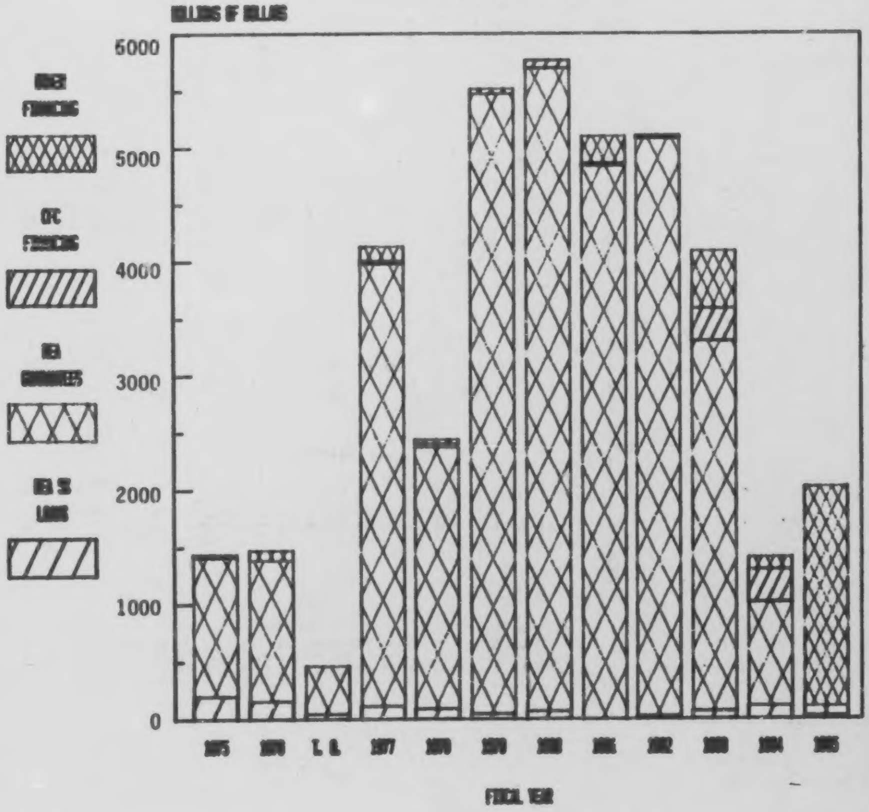


TABLE D-4

Long-Term Financing Approved by Fiscal Year REA Electric Power Supply Borrowers (in millions)

	REA		Non-REA			
Fiscal Year	2%	5%	REA Guarantee Commitments	CFC	Other Financing	Total Long-Term Financing Approved During FY
1969	$182.8	---	---	---	---	$ 182.8
1970	75.2	---	---	---	---	75.2
1971	139.8	---	---	$ 11.0	---	150.8
1972	155.6	---	---	42.1	$ 75.0	272.7
1973	58.3	$176.8	---	10.1	---	245.2
1974	---	205.5	$ 974.4	4.9	422.0	1,606.8
1975	---	196.5	1,206.3	23.7	---	1,426.5
1976	---	161.6	1,228.1	8.1	76.1	1,473.9
TQ	---	52.0	403.9	-0-	9.9	465.8
1977	---	119.7	3,867.7	20.4	121.4	4,129.2
1978	---	90.0	2,293.4	5.5	44.2	2,433.1
1979	---	49.6	5,429.7	8.4	35.6	5,523.3
1980	---	72.7	5,627.6	61.4	11.2	5,772.9
1981	---	11.2	4,838.7	13.2	232.9	5,096.0
1982*	---	32.1	5,048.2	22.7	4.5	5,107.5
1983*	---	72.6	3,224.0	298.8	507.7	4,103.1
1984*	---	120.4	896.1	272.5	123.8	1,412.9
1985	---	33.1	69.6	13.6	1,902.8	2,019.1

*Does not include funds made available through the provisions of the Economic Recovery Tax Acts ($629.2 million in F.Y. 1982, $526.4 million in F.Y. 1983 and $46.1 million in F.Y. 1984).

The number of REA electric borrowers has not changed much since about 1950. The small increases that have occurred during the last several years have been mainly because of the formation of new power supply systems that are wholly owned by REA electric distribution borrowers.

The number of REA telephone borrowers increased rapidly during the first 10-15 years of the program. The number of telephone borrowers continues to increase each year mainly because of initial loans to existing telephone utilities to extend and upgrade telephone service to rural subscribers.

Chart D-5

NUMBER OF REA BORROWERS

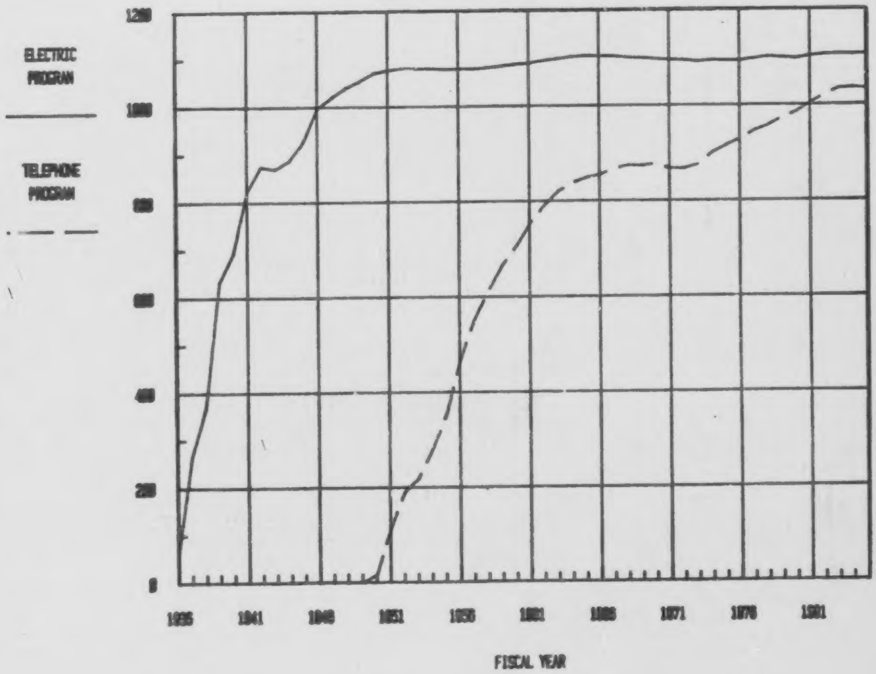


TABLE D-5

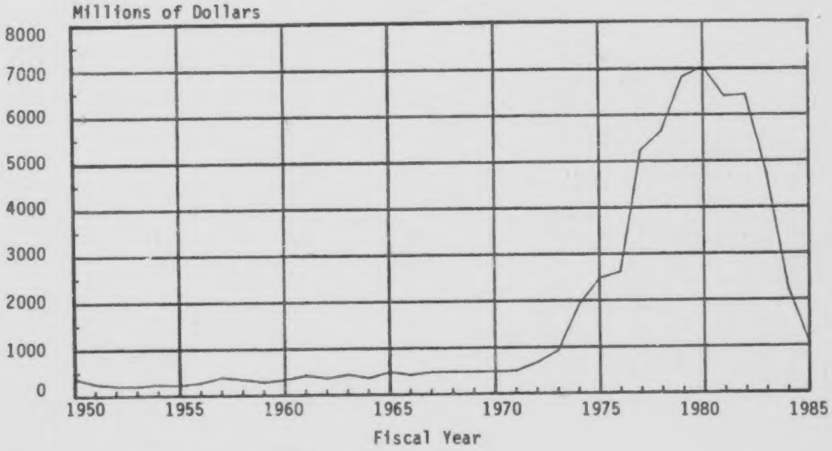
Number of REA Electric and Telephone Borrowers, Fiscal Years 1936-1985

Fiscal Year	Electric Borrowers	Telephone Borrowers
1936	66	---
1937	266	---
1938	367	---
1939	632	---
1940	692	---
1941	823	---
1942	874	---
1943	869	---
1944	887	---
1945	926	---
1946	996	---
1947	1,019	---
1948	1,039	---
1949	1,053	---
1950	1,070	17
1951	1,076	113
1952	1,080	190
1953	1,079	219
1954	1,079	279
1955	1,077	351
1956	1,078	466
1957	1,078	551
1958	1,080	611
1959	1,083	665
1960	1,087	705
1961	1,089	753
1962	1,094	790
1963	1,098	820
1964	1,102	838
1965	1,104	848
1966	1,103	855
1967	1,103	867
1968	1,100	874
1969	1,099	873
1970	1,097	878
1971	1,095	867
1972	1,094	867
1973	1,091	876
1974	1,094	900
1975	1,093	915
1976	1,093	930
TQ	1,093	930
1977	1,097	946
1978	1,101	957
1979	1,099	974
1980	1,097	985
1981	1,102	1,004
1982	1,105	1,021
1983	1,106	1,034
1984	1,105	1,036
1985	1,106	1,034

Although the total amount of financing provided or guaranteed by REA has increased greatly, as has the complexity of many of the electric generation and telephone projects, REA's staff has effectively handled the increased work load.

Chart D-6

LOANS, GUARANTEES, AND STAFF YEARS
Loans and Guarantees Approved*



*Includes REA and RTB loans and REA loan guarantee commitments.

REA STAFF-YEARS

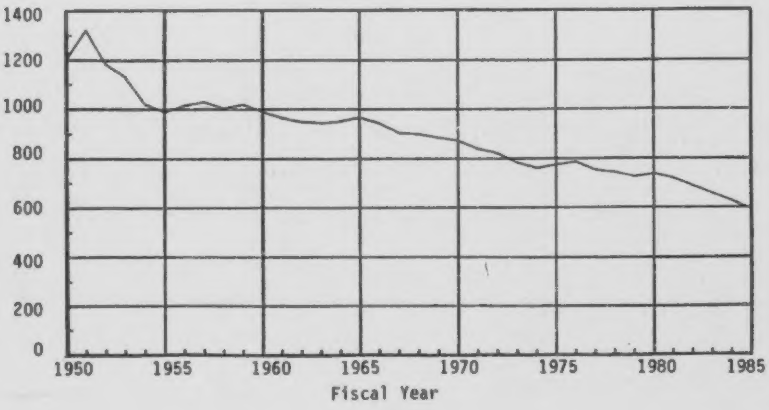


TABLE D-6

Staff Years vs. Loan Funds Approved, Fiscal Years 1936-1985

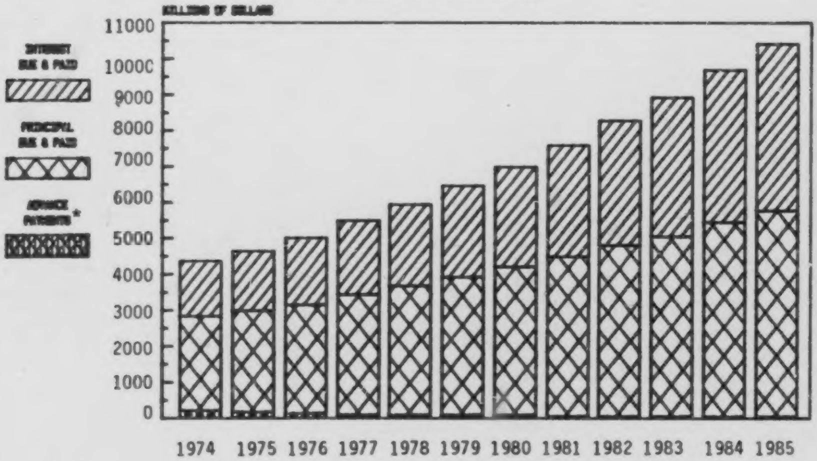
Fiscal Year	Staff Years	Loan Funds Approved*
1936	206	$ 17,929
1937	391	50,347
1938	460	31,660
1939	684	141,899
1940	785	44,880
1941	950	101,710
1942	1,094	91,282
1943	790	8,225
1944	646	34,002
1945	723	26,343
1946	987	290,914
1947	1,117	256,389
1948	929	319,110
1949	1,076	449,318
1950	1,201	379,719
1951	1,321	259,993
1952	1,183	209,017
1953	1,131	206,946
1954	1,020	241,816
1955	987	220,274
1956	1,014	270,785
1957	1,029	382,191
1958	1,002	330,875
1959	1,018	276,215
1960	989	325,108
1961	964	416,902
1962	948	352,931
1963	943	427,279
1964	950	351,412
1965	966	476,947
1966	943	412,729
1967	904	470,984
1968	898	469,928
1969	884	469,825
1970	872	469,962
1971	839	486,817
1972	821	662,873
1973	782	912,931
1974	760	1,896,075
1975	773	2,466,470
1976	785	2,603,287
TQ	168	692,585
1977	751	5,229,061
1978	741	3,634,935
1979	724	6,810,338
1980	735	7,022,604
1981	718	6,391,064
1982	686	6,425,693
1983	655	4,714,614
1984	626	2,223,891
1985	591	1,028,998

*Includes REA and electric and telephone loans, RTB loans and REA loan guarantee commitments.

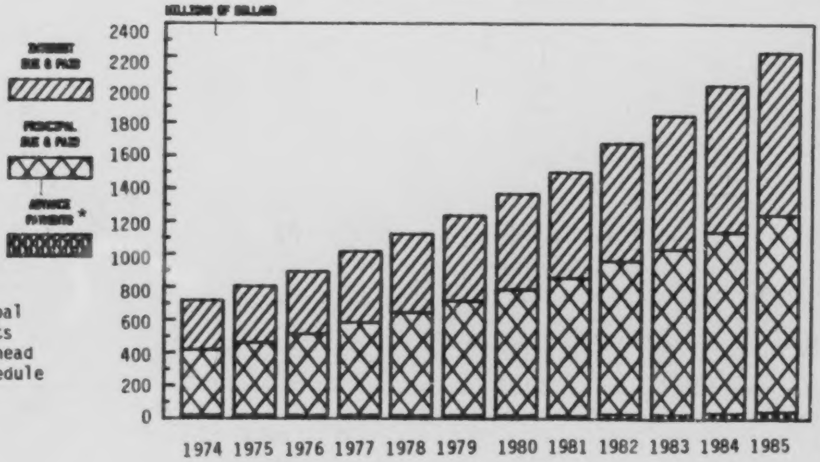
As of September 30, 1985, REA has collected more than $12.6 billion in principal and interest payments from its rural electric and telephone borrowers. Total losses to date have amounted to $44,478.

Chart D-7 CUMULATIVE PAYMENTS OF PRINCIPAL AND INTEREST ON REA LOANS

REA ELECTRIC BORROWERS



REA TELEPHONE BORROWERS



*Principal payments made ahead of schedule

TABLE D-7

PAYMENTS OF PRINCIPAL AND INTEREST ON REA LOANS
CUMULATIVE TOTALS IN MILLIONS
(INCLUDES NOTES PAID IN FULL)

Fiscal Year	ELECTRIC			TELEPHONE		
	Advance Payments*	Principal Due & Paid	Interest Due & Paid	Advance Payments*	Principal Due & Paid	Interest Due & Paid
1971......	$317.1	$2,097.2	$1,205.0	$25.2	$262.3	$214.1
1972......	293.5	2,267.4	1,302.8	25.2	302.2	242.1
1973......	244.2	2,446.6	1,406.6	23.9	343.9	271.7
1974......	192.5	2,628.6	1,519.6	20.6	389.8	302.9
1975......	148.2	2,827.4	1,659.4	20.0	440.1	337.5
1976......	125.6	3,038.3	1,822.5	19.4	492.8	374.9
1977......	104.7	3,323.1	2,056.3	19.7	563.3	427.4
1978......	93.8	3,574.1	2,277.1	21.4	624.6	473.7
1979......	74.1	3,842.4	2,523.0	21.6	689.5	523.2
1980......	67.0	4,127.5	2,801.7	21.3	760.4	578.5
1981......	55.9	4,425.9	3,118.6	22.4	834.4	640.9
1982......	48.5	4,736.0	3,469.9	27.0	935.5	710.6
1983......	47.6	5,007.5	3,845.0	30.3	1,004.1	805.6
1984......	50.7	5,376.8	4,240.4	37.1	1,097.8	892.2
1985......	55.5	5,704.8	4,658.4	44.1	1,198.1	983.9

* Principal payments made ahead of schedule.

Each year since the Rural Electrification and Telephone Revolving Fund (RETRF) was established in 1973, REA has paid out more in advances to borrowers and in interest, than it has received in payments on loans.

The RETRF obtains the additional funds necessary to meet advances and interest expenses from the U.S. Treasury, directly or through the Federal Financing Bank, at rates of interest greatly in excess of the interest rates charged borrowers.

Chart D-8 RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

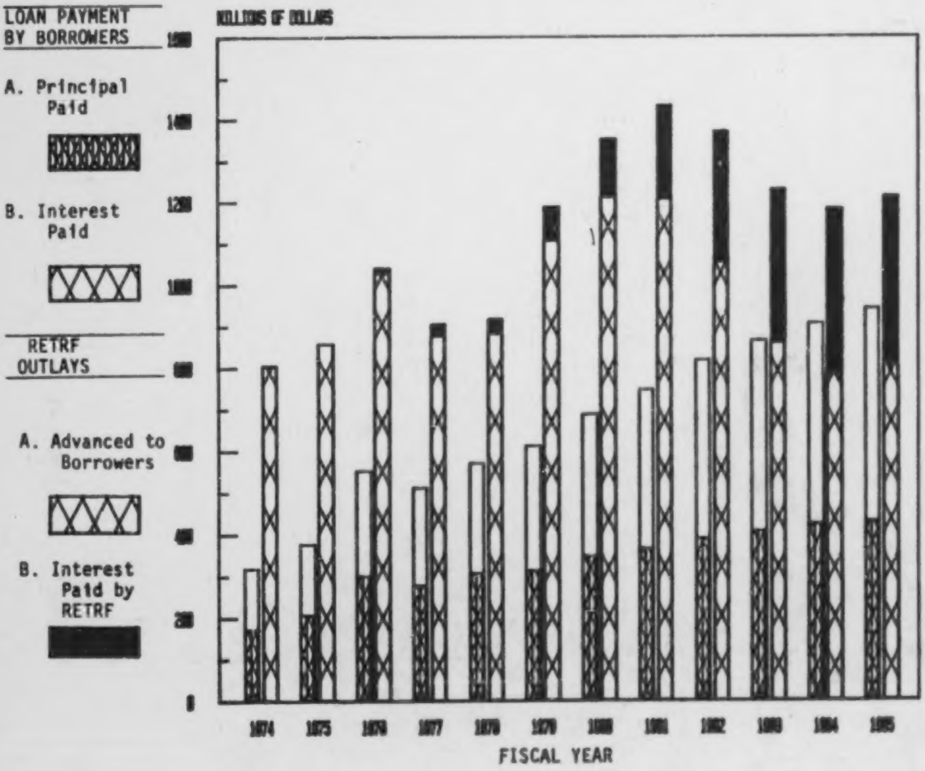


TABLE D-8 THE RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND (RETRF)
(Dollars in Millions)

FISCAL YEAR	LOAN PAYMENTS RECEIVED		RETRF OUTLAYS	
	PRINCIPAL	INTEREST	ADVANCES TO BORROWERS	INTEREST PAID
1973	$ 20.3	$ 21.4	$ 92.4	$ 0.0
1974	173.1	144.2	802.4	0.0
1975	204.0	174.3	854.9	0.0
1976	299.2	252.3	1027.9	11.4
1977	275.2	234.9	874.9	29.6
1978	303.1	268.1	881.4	33.3
1979	313.8	296.9	1105.2	79.1
1980	349.1	336.9	1206.8	144.1
1981	363.1	382.7	1203.8	228.4
1982	389.3	425.8	1048.0	316.5
1983	405.2	459.1	855.6	367.9
1984	425.5	479.2	781.1	395.6
1985	428.3	509.8	797.1	408.9

When Congress created the REA loan program it did not provide an interest rate subsidy. Interest rates charged borrowers fluctuated with the cost of money to the Government. It was not until 1944 that Congress established a fixed interest rate of two percent, which at that time was the approximate cost of money to the Government. As time went by and the interest rates rose, the subsidy associated with REA loans grew. During recent years there has been a significant widening of the gap between the cost of money to the Government and the interest rate charged borrowers on REA loans.

Chart D-9 INTEREST RATE ON REA LOANS vs. COST OF MONEY TO THE GOVERNMENT

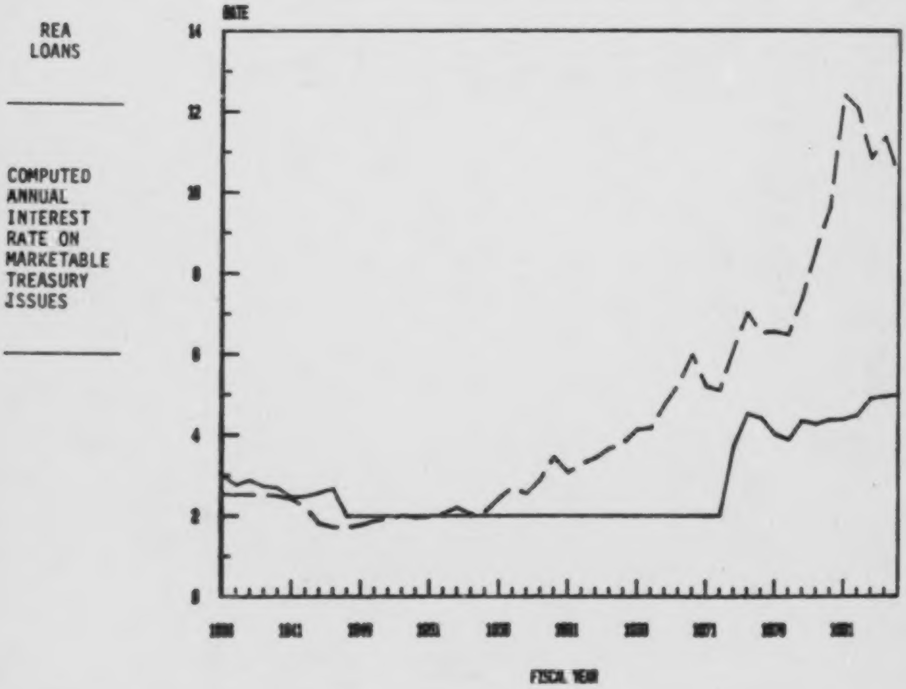


TABLE D-9

Interest Rate on REA Loans vs. Cost of Money to the Government

Fiscal Year	Interest Rate Paid by Borrowers on REA Loans*	Computed Annual Interest Rate On Marketable Treasury Issues**
1936	3.00	2.530
1937	2.77	2.525
1938	2.88	2.521
1939	2.73	2.525
1940	2.69	2.492
1941	2.46	2.413
1942	2.48	2.225
1943	2.57	1.822
1944	2.67	1.725
1945	2.00	1.718
1946	2.00	1.773
1947	2.00	1.871
1948	2.00	1.942
1949	2.00	2.001
1950	2.00	1.958
1951	2.00	1.981
1952	2.00	2.051
1953	2.00	2.207
1954	2.00	2.043
1955	2.00	2.079
1956	2.00	2.427
1957	2.00	2.707
1958	2.00	2.546
1959	2.00	2.891
1960	2.00	3.449
1961	2.00	3.063
1962	2.00	3.285
1963	2.00	3.425
1964	2.00	3.659
1965	2.00	3.800
1966	2.00	4.134
1967	2.00	4.165
1968	2.00	4.757
1969	2.00	5.232
1970	2.00	5.986
1971	2.00	5.210
1972	2.00	5.099
1973	3.72	6.129
1974	4.52	7.030
1975	4.42	6.533
1976	4.02	6.559
TQ	3.92	6.591
1977	3.88	6.481
1978	4.35	7.388
1979	4.27	8.592
1980	4.37	9.608
1981	4.38	12.435
1982	4.48	12.082
1983	4.90	10.850
1984	4.95	11.383
1985	4.99	10.383

*Weighted average interest rate on REA loans approved during the fiscal year.
**Source: Monthly Statement of Public Debt, U.S. Department of Treasury

As of September 1985, REA borrowers had received more than $58.7 billion from REA loans, loan guarantee commitments and RTB loans. Loan guarantee commitments account for most of this financing, however, a large proportion has been provided by REA loans at the two percent and five percent interest rates.

Chart D-10 CUMULATIVE REA AND RTB LOANS AND REA LOAN GUARANTEE COMMITMENTS, AS OF SEPTEMBER 30, 1985

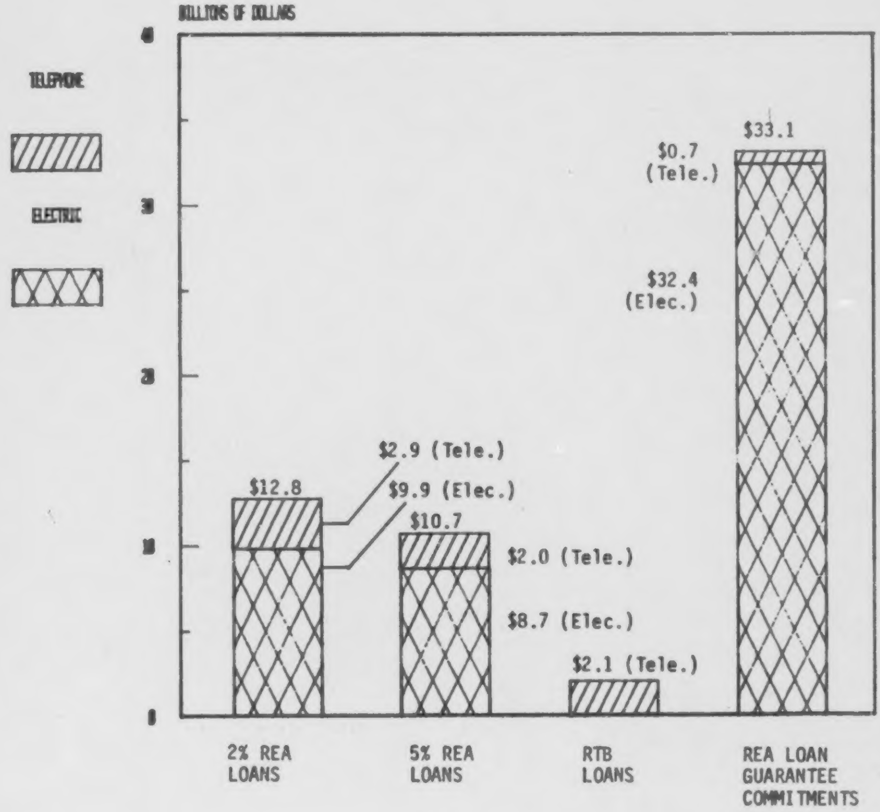


Table D-10
Cumulative REA Loans to Electric and Telephone Borrowers, as of September 30, 1985

	Electric Loans	Telephone Loans
UNITED STATES	$18,607,067,831	$4,938,184,501
Alabama	371,068,006	141,116,119
Alaska	689,409,196	120,873,000
Arizona	160,883,419	39,910,000
Arkansas	580,267,349	81,314,326
California	68,904,523	84,418,614
Colorado	826,808,997	45,608,765
Connecticut	--	--
Delaware	32,865,881	--
Florida	533,621,153	42,897,463
Georgia	748,378,712	220,249,182
Hawaii	--	--
Idaho	118,109,683	31,412,926
Illinois	429,306,447	69,475,105
Indiana	354,042,723	94,248,545
Iowa	608,305,725	126,081,964
Kansas	483,785,328	171,200,573
Kentucky	818,415,180	233,635,000
Louisiana	537,305,909	88,520,118
Maine	22,004,765	29,721,472
Maryland	122,408,500	2,061,000
Massachusetts	--	1,835,000
Michigan	291,809,812	91,072,571
Minnesota	810,003,443	229,826,559
Mississippi	465,622,504	83,966,604
Missouri	926,868,832	178,496,841
Montana	267,947,012	160,713,352
Nebraska	458,347,861	99,372,666
Nevada	70,028,563	7,603,000
New Hampshire	69,528,884	11,337,000
New Jersey	11,762,660	14,295,000
New Mexico	270,461,517	140,654,000
New York	24,022,891	41,368,149
North Carolina	512,852,211	178,524,323
North Dakota	830,240,332	158,972,114
Ohio	328,127,099	26,052,571
Oklahoma	773,154,234	179,546,377
Oregon	229,571,249	54,862,641
Pennsylvania	191,315,329	73,922,890
Rhode Island	--	--
South Carolina	547,977,025	172,233,994
South Dakota	407,569,525	142,246,695
Tennessee	300,679,033	241,059,000
Texas	1,779,506,226	402,711,414
Utah	63,152,996	33,808,000
Vermont	51,150,918	4,785,000
Virginia	334,525,756	58,593,000
Washington	183,267,598	37,628,489
West Virginia	6,281,633	59,174,000
Wisconsin	429,129,125	233,976,068
Wyoming	227,114,940	12,138,000
Puerto Rico	238,727,000	115,677,000
Virgin Islands	430,126	--
Guam	--	57,776,000
Micronesia	--	11,212,000

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Table D-11 Cumulative REA Loan Guarantee Commitments and Rural Telephone Bank Loans
As of September 30, 1985

	Electric	Telephone	Rural Telephone Bank
UNITED STATES	$32,372,593,434	$679,454,000	$2,141,439,869
Alabama	295,358,000	11,901,000	88,238,850
Alaska	249,015,000	46,943,000	62,748,000
Arizona	337,697,000	5,000,000	94,307,483
Arkansas	932,180,947	35,744,000	48,177,045
California	--	10,396,000	50,664,600
Colorado	1,490,229,520	--	23,013,469
Connecticut	--	--	--
Delaware	--	--	--
Florida	1,114,869,000	76,556,000	50,740,200
Georgia	3,765,763,278	88,241,000	126,475,265
Hawaii	--	--	--
Idaho	130,000	--	10,519,950
Illinois	1,005,766,000	--	20,396,697
Indiana	2,051,888,000	--	23,052,750
Iowa	266,758,000	9,700,000	42,707,395
Kansas	797,147,000	20,440,000	46,235,907
Kentucky	2,977,068,000	28,840,000	41,797,350
Louisiana	3,967,381,000	13,651,000	50,437,800
Maine	--	1,875,000	34,415,850
Maryland	--	--	2,326,800
Massachusetts	--	--	519,750
Michigan	818,369,756	2,953,000	63,741,300
Minnesota	1,285,134,000	10,239,000	77,068,428
Mississippi	723,650,000	5,200,000	14,853,300
Missouri	855,775,080	67,770,000	52,203,795
Montana	11,478,000	--	2,144,100
Nebraska	--	--	24,159,425
Nevada	--	--	8,319,150
New Hampshire	146,182,000	--	16,129,050
New Jersey	--	3,084,000	16,554,300
New Mexico	387,682,000	--	3,134,250
New York	--	18,220,000	40,957,875
North Carolina	1,513,369,600	31,158,000	97,614,622
North Dakota	2,831,938,253	--	14,638,733
Ohio	72,110,000	--	5,259,450
Oklahoma	637,093,000	2,744,000	94,666,130
Oregon	54,128,000	18,228,000	41,743,301
Pennsylvania	647,908,000	43,247,000	183,214,413
Rhode Island	--	--	--
South Carolina	530,136,000	7,885,000	104,983,320
South Dakota	13,828,000	--	14,995,701
Tennessee	--	14,358,000	57,579,900
Texas	1,021,764,000	76,131,000	156,035,554
Utah	981,136,000	--	6,638,100
Vermont	50,726,000	--	8,547,000
Virginia	263,000,000	--	17,997,368
Washington	--	--	18,932,285
West Virginia	--	5,250,000	16,426,200
Wisconsin	260,359,000	23,700,000	139,808,358
Wyoming	15,576,000	--	7,675,500
Puerto Rico	--	--	15,116,850
Guam	--	--	3,526,950

Table D-12 REA Loans to Electric and Telephone Borrowers, Fiscal Year 1985

	Electric Loans	Telephone Loans
UNITED STATES	$562,029,000	$224,589,000
Alabama	7,919,000	20,168,000
Alaska	39,586,000	12,433,000
Arizona	3,124,000	7,295,000
Arkansas	7,791,000	5,833,000
California	---	5,829,000
Colorado	1,267,000	---
Connecticut	---	---
Delaware	3,107,000	---
Florida	38,762,000	---
Georgia	62,934,000	8,454,000
Hawaii	---	---
Idaho	2,078,000	3,822,000
Illinois	11,353,000	---
Indiana	3,809,000	---
Iowa	9,695,000	1,098,000
Kansas	10,570,000	8,150,000
Kentucky	3,996,000	17,251,000
Louisiana	24,897,000	970,000
Maine	501,000	3,285,000
Maryland	---	---
Massachusetts	---	---
Michigan	13,121,000	5,624,000
Minnesota	23,150,000	21,258,000
Mississippi	9,049,000	7,541,000
Missouri	4,664,000	---
Montana	19,899,000	17,673,000
Nebraska	---	---
Nevada	6,408,000	---
New Hampshire	---	---
New Jersey	---	---
New Mexico	1,113,000	2,253,000
New York	---	---
North Carolina	24,207,000	1,575,000
North Dakota	4,532,000	27,374,000
Ohio	6,503,000	---
Oklahoma	16,975,000	---
Oregon	1,003,000	---
Pennsylvania	8,647,000	---
Rhode Island	---	---
South Carolina	54,775,000	---
South Dakota	8,513,000	8,567,000
Tennessee	6,759,000	16,519,000
Texas	107,904,000	14,661,000
Utah	---	---
Vermont	1,981,000	---
Virginia	518,000	---
Washington	3,354,000	---
West Virginia	---	---
Wisconsin	3,727,000	6,956,000
Wyoming	3,838,000	---
Puerto Rico	---	---

Table D-13 REA Loan Guarantee Commitments and Rural Telephone Bank Loans
Fiscal Year 1985

	REA Loan Guarantee Commitments		Rural Telephone Bank Loans
	Electric	Telephone	
UNITED STATES	$74,607,000	---	$167,773,200
Alabama	---	---	27,408,150
Alaska	18,120,000	---	3,356,850
Arizona	---	---	---
Arkansas	---	---	1,158,150
California	---	---	423,150
Colorado	---	---	---
Connecticut	---	---	---
Delaware	---	---	---
Florida	---	---	3,028,200
Georgia	---	---	18,161,850
Hawaii	---	---	---
Idaho	---	---	577,500
Illinois	---	---	---
Indiana	---	---	---
Iowa	---	---	10,101,000
Kansas	10,000,000	---	---
Kentucky	---	---	---
Louisiana	---	---	8,038,800
Maine	---	---	5,303,550
Maryland	---	---	---
Massachusetts	---	---	---
Michigan	---	---	16,604,700
Minnesota	---	---	1,043,700
Mississippi	---	---	---
Missouri	---	---	---
Montana	---	---	431,550
Nebraska	---	---	
Nevada	---	---	---
New Hampshire	---	---	---
New Jersey	---	---	---
New Mexico	---	---	---
New York	---	---	5,528,250
North Carolina	4,987,000	---	6,248,550
North Dakota	---	---	---
Ohio	---	---	---
Oklahoma	---	---	1,945,650
Oregon	---	---	---
Pennsylvania	41,500,000	---	20,224,050
Rhode Island	---	---	---
South Carolina	---	---	---
South Dakota	---	---	---
Tennessee	---	---	---
Texas	---	---	5,082,000
Utah	---	---	---
Vermont	---	---	509,250
Virginia	---	---	3,004,050
Washington	---	---	5,558,700
West Virginia	---	---	---
Wisconsin	---	---	8,918,700
Wyoming	---	---	---
Puerto Rico	---	---	15,116,850

TABLE D-14 LOANS, ADVANCES AND UNADVANCED FUNDS, FISCAL YEARS (FY) 1980 -1985

(Dollars in Millions)

	1985	1984	1983	1982	1981	1980
REA Electric Loans						
(a) Approved during FY	562.0	850.0	$ 850.0	$ 850.0	$ 850.0	$ 925.0
(b) Funds advanced during FY	661.2	592.2	673.7	809.4	923.1	967.7
(c) Approved but unadvanced, September 30	1,646.9	1,754.0	1,504.1	1,334.4	1,293.8	1,367.1
REA Telephone Loans						
(a) Approved during FY	224.6	228.6	$ 250.8	$ 249.3	$ 249.8	$ 250.1
(b) Funds advanced during FY	135.9	187.8	181.9	238.6	280.7	239.1
(c) Approved but unadvanced, September 30	838.9	775.0	741.8	678.5	677.9	719.1
Rural Telephone Bank Loans						
(a) Approved during FY	167.8	143.0	$ 171.6	$ 184.8	$ 159.9	$ 160.0
(b) Funds advanced during FY	72.7	90.5	93.4	112.2	148.6	199.9
(c) Approved but unadvanced September 30	665.3	589.6	547.5	474.9	413.1	408.4
REA Loan Guarantee Commitments Electric						
(a) Approved during FY	72.5	897.2	$3,388.3	$5,064.6	$4,994.9	$5,660.1
(b) Funds advanced during FY	2,188.9	2,399.6	3,182.3	4,130.1	4,205.4	2,510.5
(c) Approved but unadvanced, September 30	7,214.3	11,090.6	12,878.1	13,831.7	12,946.8	12,114.0
REA Loan Guarantee Commitments Telephone						
(a) Approved during FY	0	105.1	$ 54.0	$ 77.0	$ 136.4	$ 27.4
(b) Funds advanced during FY	20.9	43.5	31.3	64.7	36.7	63.2
(c) Approved but unadvanced, September 30	156.8	191.6	216.7	281.1	270.7	171.1

BORROWER STATISTICS

Rural electric systems have historically had more rapid rates of increase in electric demand than the total electric utility industry. Since 1973 growth in electric usage has declined for both REA borrowers and the total industry. However, 1984 statistics show that the amount of electricity used by rural electric consumers grew the highest rate since 1977.

Chart E-2

ANNUAL PERCENT CHANGE IN ELECTRICITY USE

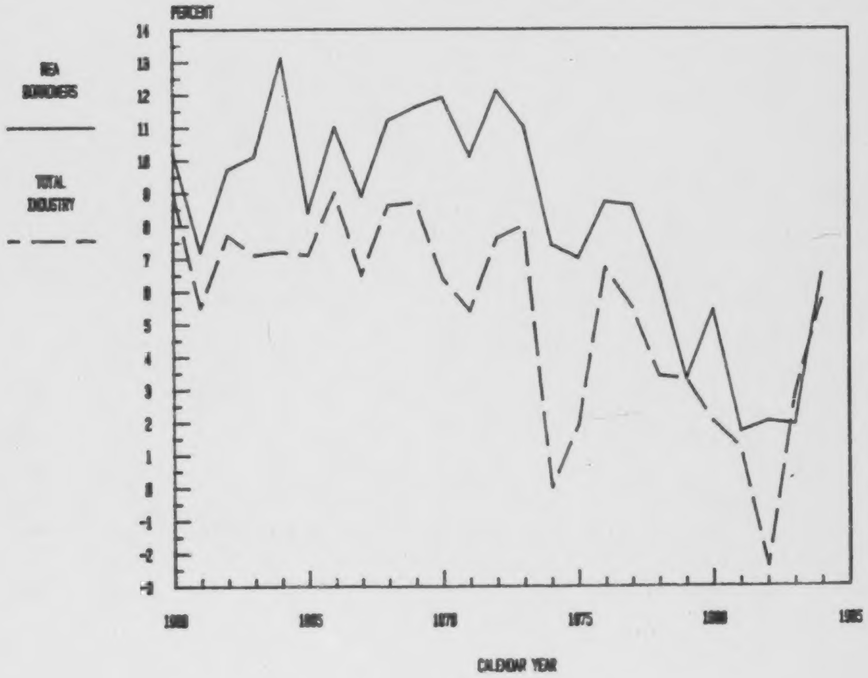


TABLE E-1 Growth Trends in Electricity Usage

Year	Annual Percent Change in kWh Sales to Ultimate Consumers: REA Borrowers	Annual Percent Change in kWh Sales to Ultimate Consumers: Total Electric Utility Industry
1960	10.2%	9.0%
1961	7.2	5.5
1962	9.7	7.7
1963	10.1	7.1
1964	13.1	7.2
1965	8.4	7.1
1966	11.0	9.0
1967	8.9	6.5
1968	11.2	8.6
1969	11.6	8.7
1970	11.9	6.4
1971	10.1	5.4
1972	12.1	7.6
1973	11.0	8.0
1974	7.4	0.0
1975	7.0	1.9
1976	8.7	6.7
1977	8.6	5.5
1978	6.4	3.4
1979	3.3	3.3
1980	5.4	2.0
1981	1.7	1.2
1982	2.0	-2.4
1983	1.9	2.8*
1984	6.5	5.7**

Sources: REA Bulletin 1-1; Edison Electric Institute Statistical Yearbook.

* Revised
** Preliminary

Consumers served by rural electric systems have been charged increasingly higher prices for electricity since the early 1970's. These price increases came after a long period of steadily declining prices.

However, it is interesting to note that when inflation is adjusted for, there has been very little real increase in electricity prices to rural electric consumers--electricity remains a very good buy. Rural electric consumers are paying far less for electricity today in constant dollars than they were in the early days of the rural electric program.

Chart E-2

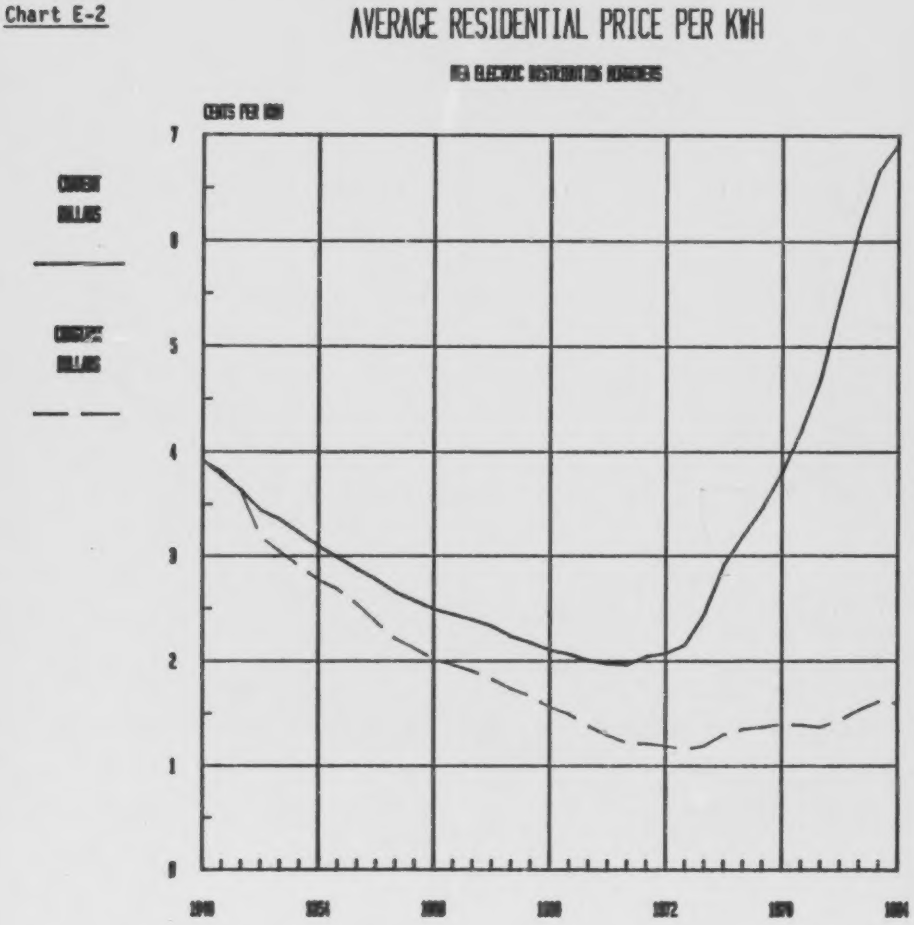


TABLE E-2

Average Resident'al Price Per kWh Charged by REA Electric Borrowers

Year	Current[1]	Constant[2]
1948	3.92¢	3.92¢
1949	3.77	3.81
1950	3.63	3.63
1951	3.44	3.19
1952	3.35	3.04
1953	3.22	2.90
1954	3.09	2.77
1955	2.98	2.68
1956	2.87	2.54
1957	2.77	2.37
1958	2.65	2.21
1959	2.57	2.12
1960	2.49	2.02
1961	2.44	1.96
1962	2.39	1.90
1963	2.33	1.83
1964	2.23	1.73
1965	2.17	1.66
1966	2.10	1.56
1967	2.06	1.49
1968	2.00	1.38
1969	1.97	1.29
1970	1.96	1.22
1971	2.04	1.21
1972	2.07	1.19
1973	2.15	1.16
1974	2.44	1.19
1975	2.90	1.30
1976	3.19	1.35
1977	3.46	1.37
1978	3.80	1.40
1979	4.20	1.39
1980	4.69	1.37
1981	5.43	1.44
1982	6.13	1.53
1983	6.66	1.61
1984	6.92	1.60

[1] Current $ = dollars of the year.

[2] Constant $ = dollars adjusted for inflation. The Consumer Price Index was used to convert current dollars to constant dollars.

Electric rates charged rural electric consumers have increased mainly because of sharp escalation in the cost of power. In most cases, increases in the cost of distributing power have been more moderate. The cost of power has risen mainly because of: (a) increasing fuel costs and (b) expensive new generating units that are coming on line.

Chart E-3

AVERAGE POWER & OTHER COSTS PER KWH SOLD

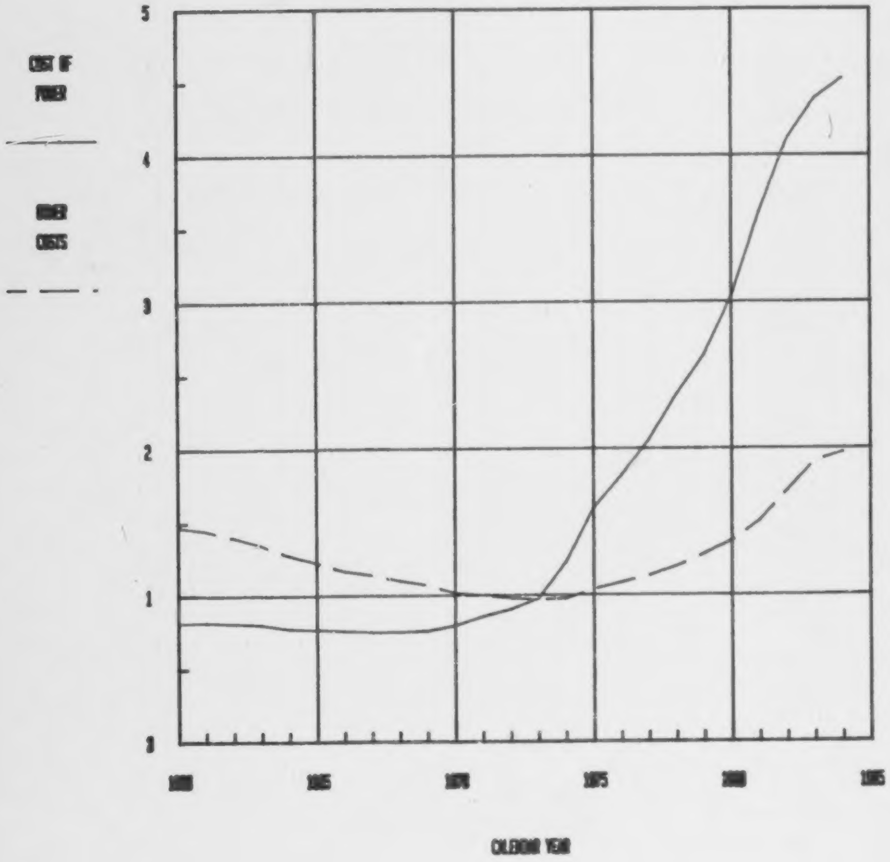


TABLE E-3 AVERAGE POWER AND OTHER COSTS PER kWh SOLD

Year	Cost of Power 1/	Other Costs 2/
1960	0.817¢	1.472¢
1961	0.819	1.446
1962	0.811	1.400
1963	0.802	1.346
1964	0.773	1.276
1965	0.766	1.224
1966	0.757	1.165
1967	0.750	1.138
1968	0.752	1.100
1969	0.757	1.069
1970	0.793	1.014
1971	0.854	0.999
1972	0.902	0.976
1973	0.974	0.969
1974	1.225	0.974
1975	1.593	1.039
1976	1.813	1.082
1977	2.056	1.129
1978	2.364	1.192
1979	2.631	1.277
1980	3.031	1.369
1981	3.606	1.504
1982	4.105	1.712
1983	4.383	1.912
1984	4.522	1.970

1/ Includes power production expenses, transmission expense and cost of purchased power.

2/ Total revenue from sales of electric energy less cost of power.

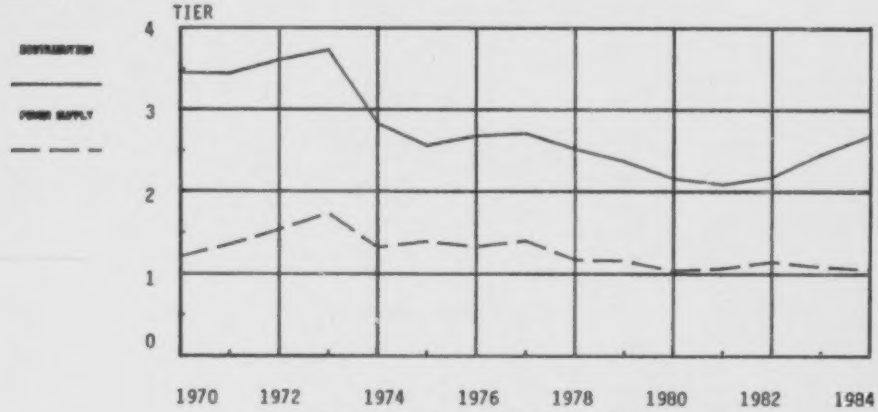
Source: REA Bulletin 1-1/

The financial ratios of REA electric borrowers declined substantially during the latter half of the 1970s and into the 1980s when costs increased rapidly and were not matched by similar rate increases. Financial ratios of distribution borrowers have improved in the past few years but those of power supply borrowers have remained very low.

Strong financial ratios are important because they affect the cost at which REA borrowers are able to obtain funds from private sources.

Chart E-4

TIMES INTEREST EARNED RATIOS



EQUITY AS A PERCENT OF TOTAL ASSETS

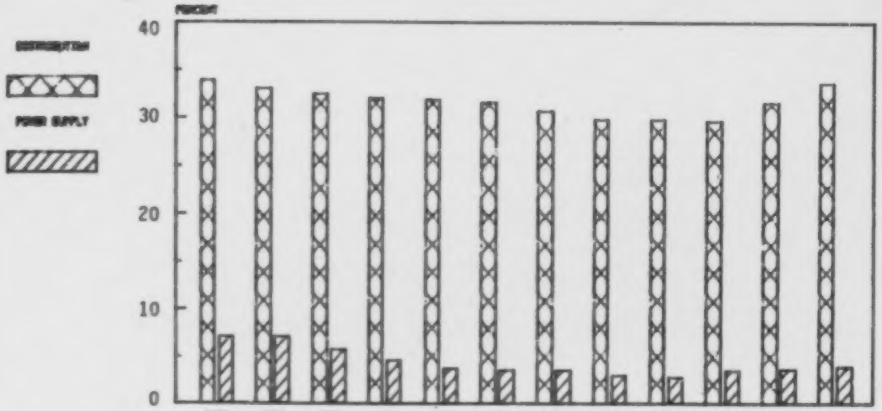


TABLE E-4

FINANCIAL RATIOS OF REA ELECTRIC BORROWERS

Year	Times Interest Earned Ratio (TIER) Distribution Borrowers	Times Interest Earned Ratio (TIER) Power Supply Borrowers	Equity as a Percent of Total Assets Distribution Borrowers	Equity as a Percent of Total Assets Power Supply Borrowers
1970	3.45	1.20	34.3%	6.4%
1971	3.44	1.35	33.7	6.4
1972	3.61	1.53	33.9	6.6
1973	3.73	1.73	33.9	7.0
1974	2.83	1.32	33.0	7.0
1975	2.56	1.39	32.4	5.7
1976	2.68	1.33	32.0	4.5
1977	2.71	1.40	31.9	3.7
1978	2.52	1.17	31.5	3.5
1979	2.37	1.16	30.6	3.6
1980	2.16	1.04	29.8	3.0
1981	2.09	1.07	29.8	2.8
1982	2.18	1.15	29.6	3.5
1983	2.46	1.09	31.6	3.7
1984	2.69	1.06	33.6	3.9

Most of the revenue collected by REA electric distribution borrowers is used to pay for wholesale power. This component of cost has increased rapidly, and margins as a percent of total revenue have declined.

Interest expense represents only a small percentage of the revenue of distribution borrowers.

Chart E-5

DISPOSITION OF THE REVENUE DOLLAR

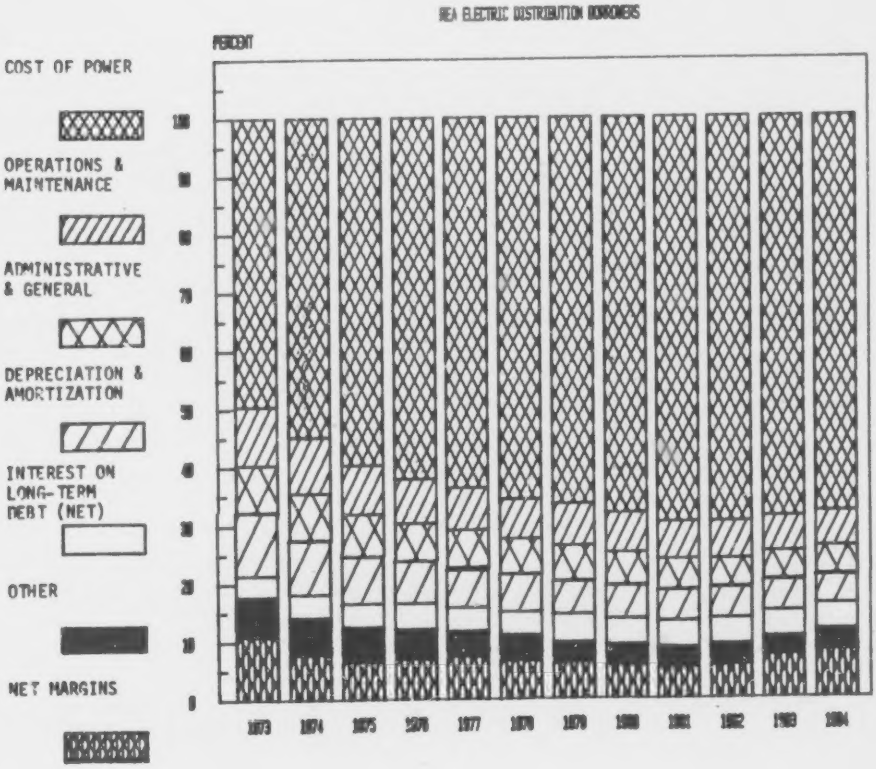


TABLE E-5

DISPOSITION OF THE REVENUE DOLLAR: REA ELECTRIC DISTRIBUTION BORROWERS
(Dollars in Thousands)

	1970		1971		1972		1973		1974	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$1,252,166	100.0	$1,412,277	100.0	$1,605,619	100.0	$1,840,930	100.0	$2,233,854	100.0
Cost of Power	541,172	43.2	641,150	45.4	759,760	47.3	909,404	49.4	1,227,751	55.0
Operation and Maintenance	139,040	11.1	151,760	10.7	164,692	10.2	185,023	10.1	212,590	9.5
Administrative and General	115,037	9.2	127,100	9.0	139,864	8.7	154,279	8.3	175,542	7.9
Depreciation & Amort.	158,751	12.7	170,473	12.1	181,762	11.3	195,801	10.6	211,899	9.5
Interest on Long-Term Debt (Net)	56,906	4.5	60,446	4.3	65,547	4.1	72,914	4.0	92,485	4.1
Other	101,399	8.1	113,755	8.1	122,847	7.7	124,339	6.8	144,311	6.5
Net Margins	139,861	11.2	148,093	10.5	171,147	10.7	199,170	10.8	169,276	7.5

	1975		1976		1977		1978		1979	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$2,867,288	100.0	$3,436,513	100.0	$4,105,986	100.0	$4,851,705	100.0	$5,514,270	100.0
Cost of Power	1,712,989	59.7	2,126,877	61.9	2,620,763	63.8	3,189,470	65.7	3,672,897	66.6
Operation and Maintenance	245,237	8.6	263,649	7.7	300,200	7.3	340,134	7.0	392,919	7.1
Administrative and General	199,490	7.0	232,464	6.7	257,984	6.3	291,054	6.0	325,121	5.9
Depreciation & Amortization	229,959	8.0	250,686	7.3	274,547	6.7	301,942	6.2	331,899	6.0
Interest on Long-Term Debt (Net)	119,100	4.1	143,550	4.2	171,016	4.2	203,156	4.2	245,532	4.5
Other	174,190	6.1	178,295	5.2	189,794	4.6	210,877	4.4	203,130	3.7
Net Margins	186,323	6.5	240,992	7.0	291,682	7.1	315,072	6.5	342,772	6.2

	1980		1981		1982		1983		1984	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$6,529,782	100.0	$7,705,652	100.0	$8,955,397	100.0	$9,854,024	100.0	$10,811,893	100.0
Cost of Power	4,449,392	68.1	5,380,501	69.8	6,246,011	69.7	6,798,822	69.0	7,379,805	68.2
Operation and Maintenance	453,149	6.9	495,969	6.4	561,936	6.3	586,365	6.0	625,866	5.8
Administrative and General	362,969	5.6	407,395	5.3	456,511	5.1	495,842	5.0	529,564	4.9
Depreciation & Amortization	364,704	5.6	404,520	5.3	445,704	5.0	481,749	4.9	518,103	4.8
Interest on Long-Term Debt (Net)	295,524	4.5	356,530	4.6	418,765	4.7	467,150	4.7	510,922	4.7
Other	248,746	3.8	247,832	3.2	310,936	3.5	323,060	3.3	363,591	3.4
Net Margins	355,298	5.5	412,905	5.4	515,534	5.7	701,036	7.1	884,042	8.2

Most of the revenue collected by REA power supply borrowers is used for power production and to purchase wholesale power from other utilities. Increases in power production expenses are mainly due to increases in the cost of fuel.

Chart E-6

DISPOSITION OF THE REVENUE DOLLAR

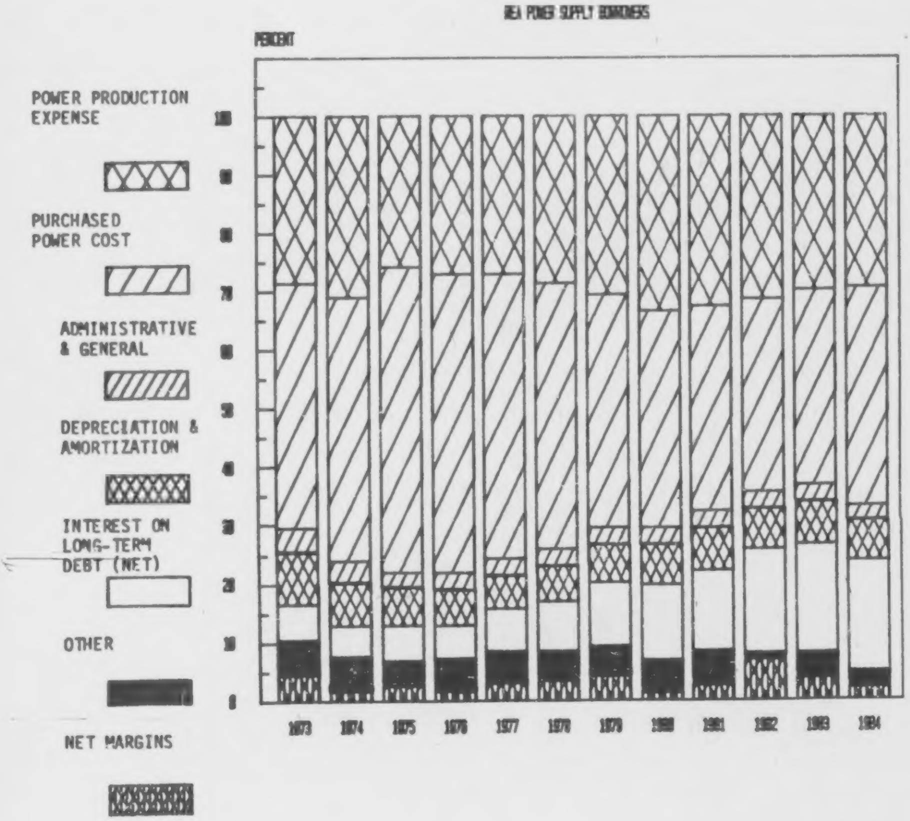


TABLE E-6

DISPOSITION OF THE REVENUE DOLLAR: REA POWER SUPPLY BORROWERS
(Dollars in Thousands)

	1970		1971		1972		1973		1974	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$ 282,949	100.0	$ 353,718	100.0	$ 419,812	100.0	$ 496,813	100.0	$ 671,272	100.0
Power Production expense	75,626	26.7	95,373	27.0	122,602	29.2	141,215	28.4	208,643	31.1
Cost of Purchased Power	107,353	37.9	142,465	40.3	164,320	39.1	209,422	42.2	302,669	45.1
Administrative and General	14,390	5.1	16,161	4.6	17,890	4.3	19,947	4.0	23,778	3.5
Depreciation & Amortization	34,280	12.1	39,015	11.0	42,306	10.1	44,439	8.9	50,115	7.5
Interest on Long-Term Debt (Net)	21,202	7.5	23,900	6.7	27,777	6.6	29,817	6.0	35,551	5.3
Other	25,768	9.2	27,925	7.9	30,307	7.2	30,302	6.1	39,311	5.8
Net Margins	4,330	1.5	8,879	2.5	14,610	3.5	21,671	4.4	11,205	1.7

	1975		1976		1977		1978		1979	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$1,020,400	100.0	$1,289,355	100.0	$1,696,339	100.0	$2,187,001	100.0	$2,547,242	100.0
Power Production Expense	264,262	25.9	345,874	26.8	454,036	26.8	623,201	28.5	779,925	30.6
Cost of Purchased Power	532,211	52.1	662,279	51.4	833,160	49.1	1,000,883	45.8	1,013,511	39.8
Administrative and General	29,163	2.8	37,511	2.9	46,751	2.8	60,075	2.7	74,067	2.9
Depreciation & Amortization	61,783	6.1	77,559	6.0	96,944	5.7	129,430	5.9	168,949	6.6
Interest on Long-Term Debt (Net)	62,027	6.1	71,398	5.6	120,122	7.1	183,175	8.4	269,294	10.6
Other	46,594	4.6	71,120	5.5	96,697	5.7	116,059	5.3	141,012	5.5
Net Margins	24,360	2.4	23,614	1.8	48,629	2.8	74,178	3.4	100,484	4.0

	1980		1981		1982		1983		1984	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$3,177,001	100.0	$4,089,724	100.0	$5,026,911	100.0	5,882,166	100.0	$7,190,267	100.0
Power Production Expense	1,062,096	33.4	1,327,829	32.5	1,577,119	31.4	1,763,088	30.0	2,129,566	29.6
Cost of Purchased Power	1,175,428	37.0	1,450,363	35.4	1,656,483	33.0	1,956,567	33.3	2,677,263	37.3
Administrative & General	96,210	3.0	114,931	2.8	141,768	2.8	157,404	2.7	187,043	2.6
Depreciation & Amortization	223,829	7.0	280,775	6.9	357,404	7.1	424,158	7.2	491,274	6.8
Interest on Long-term Debt (Net)	411,407	12.9	564,230	13.8	909,854	18.1	1,108,890	18.8	1,360,354	18.9
Other	166,352	5.4	245,505	6.0	46,485	0.9	259,040	4.4	184,891	2.6
Net Margins	41,679	1.3	106,091	2.6	337,798	6.7	213,019	3.6	159,876	2.2

ELECTRIC PROGRAM

Most of the power distributed by rural electric systems is purchased from investor-owned utilities (IOU's) and publicly-owned utilities. However, there has been a long-term trend toward REA borrowers generating more of their consumers' power needs.

Chart E-7

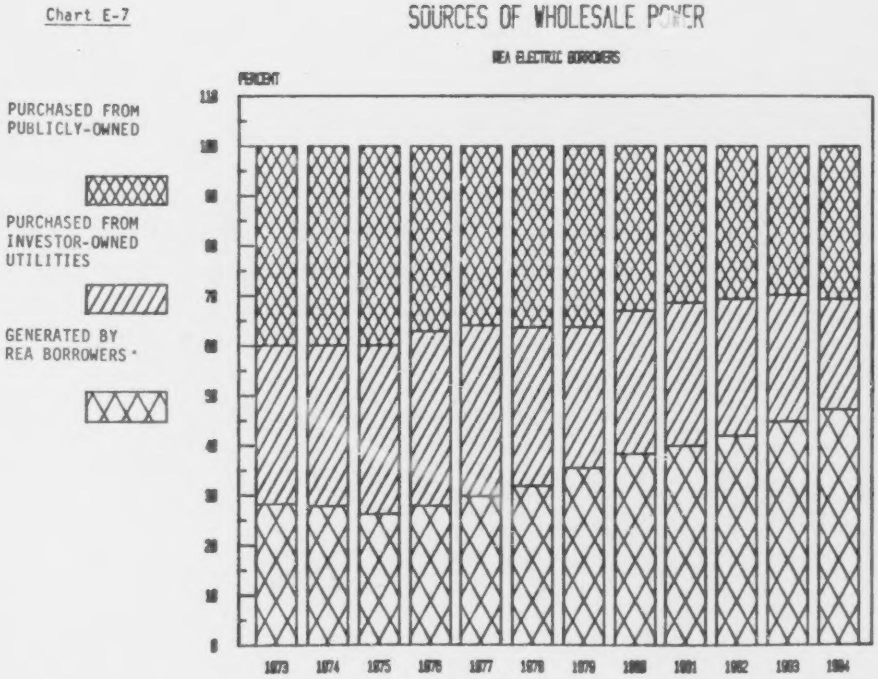


TABLE E-7 Sources of Wholesale Power for REA Electric Borrowers

Year	Generated By REA Borrowers		Purchased from Investor-Owned Utilities		Purchased from Other Public Sources	
	mWh	Percent	mWh	Percent	mWh	Percent
1970	20,637,751	26.3	25,375,456	32.3	32,524,169	41.4
1971	27,759,662	29.6	30,608,486	32.6	35,474,480	37.8
1972	32,290,340	31.0	34,153,465	32.7	37,832,238	36.3
1973	32,045,118	28.3	35,921,217	31.8	45,103,734	39.9
1974	32,795,053	27.7	38,515,457	32.5	47,057,050	39.8
1975	33,462,818	26.4	42,711,448	33.8	50,351,794	39.8
1976	38,660,059	28.0	48,100,273	34.8	51,498,254	37.2
1977	46,014,515	29.8	53,047,436	34.4	55,176,645	35.8
1978	52,472,215	31.9	52,220,422	31.8	59,725,947	36.3
1979	60,181,476	35.7	47,420,697	28.1	61,126,358	36.2
1980	69,536,829	38.2	52,614,304	28.9	59,864,121	32.9
1981	77,231,104	40.0	55,199,574	28.6	60,608,796	31.4
1982	81,568,123	42.0	53,083,098	27.4	59,372,827	30.6
1983	93,058,714	44.8	52,478,609	25.3	59,946,870	29.9
1984*	106,753,172	47.2	49,651,328	22.0	69,698,465	30.8

Preliminary

The main trends regarding the type of plant that rural telephone systems are building to serve their subscribers are: (a) buried cable is quickly replacing aerial plant and (b) central office equipment is increasing as a percentage of the total.

Chart E-8

TYPE OF PLANT IN SERVICE

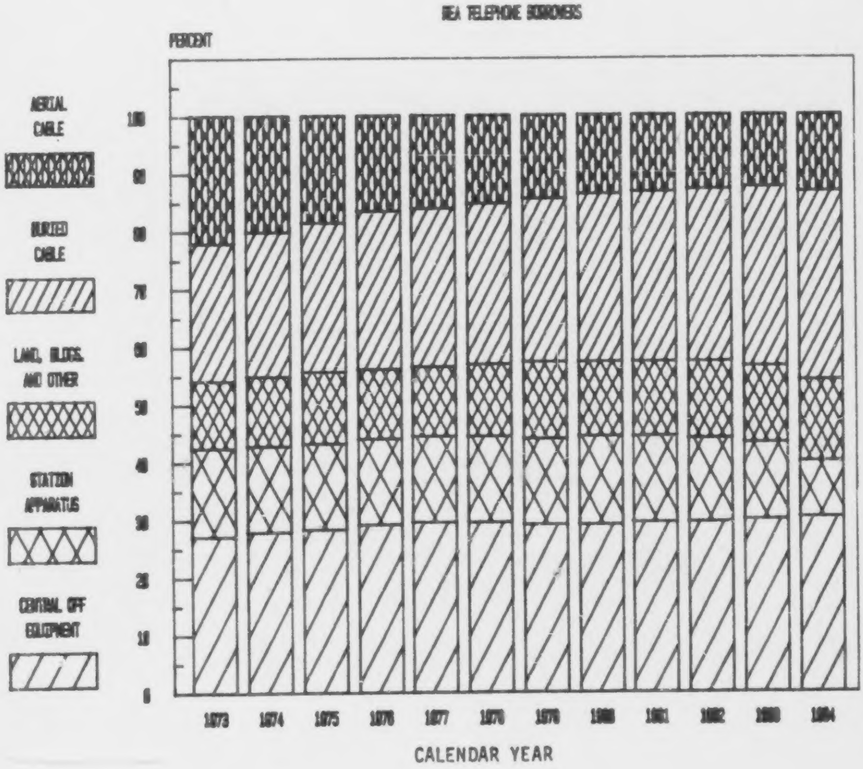


Table E-8

TYPE OF PLANT IN SERVICE
REA TELEPHONE BORROWERS
(Dollars in Thousands)

	1970		1971		1972		1973		1974	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Aerial Plant	$560,411	29.7	$565,955	27.0	$578,031	24.5	$603,435	22.3	$629,171	20.3
Buried Cable	346,736	18.4	435,379	20.7	530,030	22.4	639,646	23.7	766,162	24.7
Land, Buildings and Other	235,553	12.4	259,815	12.4	282,988	12.0	318,415	11.8	379,098	12.2
Station Apparatus	274,595	14.6	304,952	14.5	346,076	14.7	406,770	15.1	469,224	15.1
Central Office Equipment	469,395	24.9	532,629	25.4	623,071	26.4	731,129	27.1	858,464	27.7
Total	$1,886,690	100.0	$2,098,730	100.0	$2,360,196	100.0	$2,699,395	100.0	$3,102,119	100.0

	1975		1976		1977		1978		1979	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Aerial Plant	$646,194	18.5	$ 677,880	16.7	$ 770,373	16.3	$ 823,309	15.3	$ 881,086	14.5
Buried Cable	910,440	26.0	1,110,117	27.4	1,283,449	27.2	1,492,621	27.7	1,724,348	28.4
Land, Buildings and Other	426,827	12.2	489,938	12.1	580,679	12.3	678,351	12.6	788,006	13.0
Station Apparatus	520,577	14.9	598,480	14.8	703,181	14.9	810,473	15.1	918,001	15.1
Central Office Equipment	992,808	28.4	1,176,667	29.0	1,383,950	29.3	1,577,726	29.3	1,763,945	29.0
Total	$3,496,846	100.0	$4,053,082	100.0	$4,721,632	100.0	$5,382,480	100.0	$6,075,386	100.0

	1980		1981		1982		1983*		1984	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Aerial Plant	$ 942,358	13.7	$ 993,164	13.1	$1,082,725	12.8	$1,144,646	12.6	$1,274,846	13.1
Buried Cable	1,990,426	29.0	2,245,791	29.6	2,524,514	30.0	2,795,283	30.9	3,225,691	33.0
Land, Buildings and Other	900,231	13.1	996,291	13.1	1,122,753	13.3	1,215,307	13.4	1,362,515	14.0
Station Apparatus	1,035,624	15.1	1,118,827	14.8	1,222,583	14.5	1,190,245	13.1	942,570	9.7
Central Office Equipment	2,001,295	29.1	2,224,379	29.4	2,476,062	29.4	2,714,724	30.0	2,955,645	30.2
Total	$6,869,934	100.0	$7,578,452	100.0	$8,428,637	100.0	$9,060,205	100.0	$9,761,267	100.0

* Revised

An increasing percentage of the revenue collected by REA telephone borrowers has been obtained from toll revenues. Local service revenues have decreased in relative importance.

Chart E-9

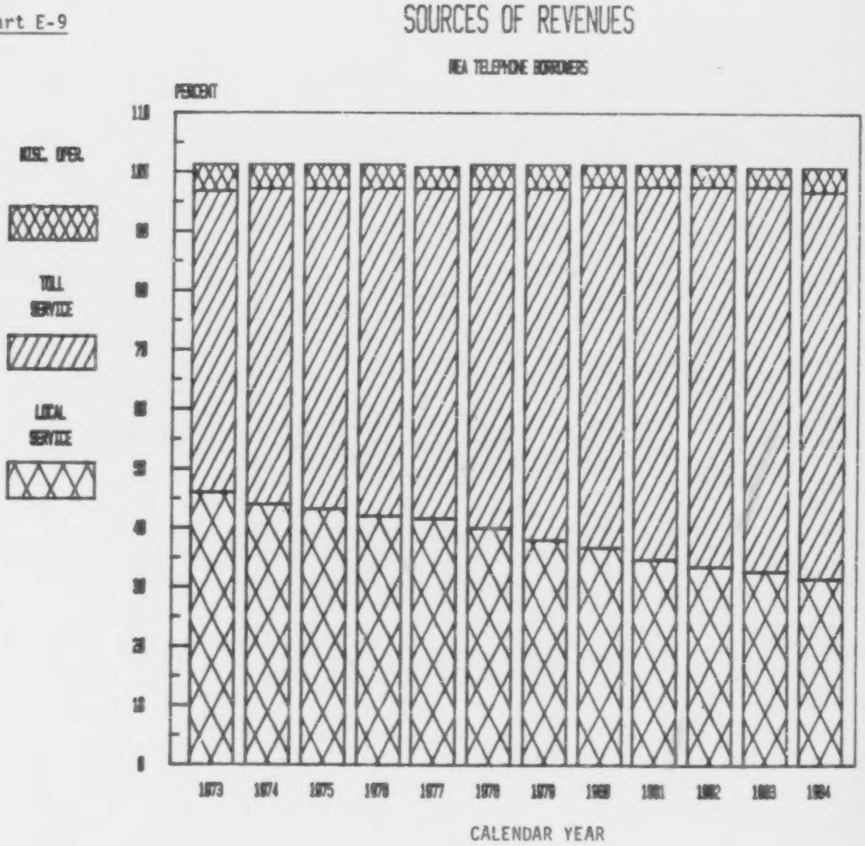


Table E-9

SOURCES OF REVENUES, REA TELEPHONE BORROWERS
(Dollars in Thousands)

	1971		1972		1973		1974		1975	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Local Service Revenue	$202,290	49.7	$224,915	48.4	$256,792	46.2	$291,894	44.1	$325,894	43.3
Net Toll Revenue	192,103	47.2	224,812	48.4	280,556	50.5	349,839	53.0	406,649	54.0
Misc. Operating Revenues	15,835	3.9	17,927	3.8	21,472	3.9	23,132	3.5	25,928	3.4
Uncollectable Operating Revenues	2,823	0.6	2,890	0.6	3,502	0.6	4,366	0.6	5,371	0.7
Total Operating Revenues	$407,405	100.0	$464,764	100.0	$555,318	100.0	$659,732	100.0	$753,100	100.0

	1976		1977		1978		1979		1980	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Local Service Revenue	$377,349	42.0	$ 449,804	41.4	$ 522,406	40.0	$ 586,323	38.1	$ 648,608	36.9
Net Toll Revenue	497,544	55.3	606,795	55.8	748,912	57.4	913,310	59.3	1,066,488	60.7
Misc. Operating Revenues	30,125	3.3	36,164	3.3	42,157	3.2	49,456	3.2	54,980	3.1
Uncollectable Operating Revenues	5,683	0.6	6,159	0.5	8,213	0.6	9,346	0.6	12,336	0.7
Total Operating Revenues	$899,335	100.0	$1,086,604	100.0	$1,305,262	100.0	$1,539,743	100.0	$1,757,740	100.0

	1981		1982		1983*		1984	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Local Service Revenue	$ 709,132	34.7	$ 798,273	33.4	$ 862,463	32.6	$ 910,039	31.3
Net Toll Revenue	1,284,666	62.9	1,535,565	64.3	1,716,767	65.0	1,909,122	65.6
Misc. Operating Revenues	61,498	3.0	70,237	2.9	77,265	2.9	102,417	3.5
Uncollectable Operating Revenues	13,231	0.6	15,228	0.6	13,990	0.5	11,384	0.4
Total Operating Revenues	$2,042,065	100.0	$2,388,847	100.0	$2,642,505	100.0	$2,910,194	100.0

* Revised

The major expenses of rural telephone borrowers have been relatively stable as a percent of their total revenue: there have been no dramatic trends among any of the major expense items.

Interest on long-term debt, like other items has been stable--accounting for about ten percent of telephone borrower revenue for the past twenty years.

Chart E-10

DISPOSITION OF THE REVENUE DOLLAR

REA TELEPHONE BORROWERS

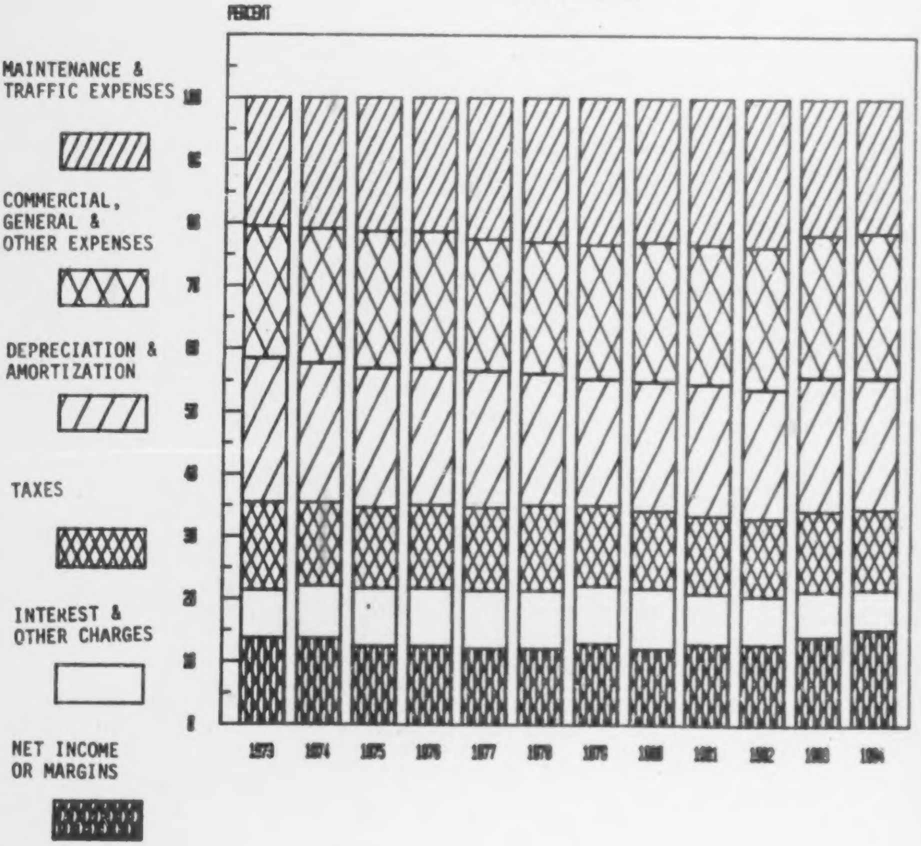


Table E-10

DISPOSITION OF THE REVENUE DOLLAR
REA TELEPHONE BORROWERS
(Dollars in Thousands)

	1971		1972		1973		1974		1975	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$407,405	100.0	$464,764	100.0	$555,318	100.0	$659,732	100.0	$753,100	100.0
Maintenance & Traffic Expense	84,447	20.7	96,362	20.7	114,815	20.7	139,139	21.1	162,191	21.5
Commercial, General & Other	84,579	20.8	98,434	21.2	116,201	20.9	139,047	21.1	162,765	21.6
Depreciation & Amortization	97,600	24.0	110,586	23.8	127,728	23.0	146,475	22.2	166,709	22.1
Taxes	55,464	13.6	61,892	13.3	76,440	13.8	87,866	13.3	97,440	13.0
Interest on Long-term Debt (Net)	30,064	7.4	33,751	7.3	41,246	7.4	53,830	8.2	66,202	8.8
Other Fixed Charges	2,135	0.5	3,504	0.8	5,346	0.9	7,364	1.1	7,575	1.0
Other Income & Deductions (Net)	(2,755)	(0.7)	(2,644)	(0.6)	(3,259)	(0.5)	(5,250)	(0.8)	(5,238)	(0.7)
Net Income or Margin	55,872	13.7	62,879	13.5	76,801	13.8	91,261	13.8	95,456	12.7

	1976		1977		1978		1979		1980	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$899,335	100.0	$1,086,604	100.0	$1,305,262	100.0	$1,539,743	100.0	$1,757,740	100.0
Maintenance & Traffic Expense	192,993	21.5	242,908	22.4	298,834	22.9	357,938	23.3	405,560	23.1
Commercial, General & Other	194,720	21.7	231,746	21.3	277,085	21.2	329,888	21.4	387,127	22.0
Depreciation & Amortization	195,087	21.7	232,252	21.4	270,383	20.7	312,337	20.3	361,059	20.5
Taxes	120,501	13.4	147,213	13.5	178,101	13.7	196,064	12.7	222,568	12.7
Interest on Long-term Debt (Net)	85,705	9.5	101,997	9.4	117,456	9.0	140,605	9.1	167,764	9.6
Other Fixed Charges	4,841	0.5	6,662	0.6	11,536	0.9	18,920	1.2	21,701	1.2
Other Income & Deductions (Net)	(6,909)	(0.8)	(7,659)	(0.7)	(8,940)	(0.7)	(15,598)	(1.0)	(24,395)	(1.4)
Net Income or Margin	112,397	12.5	131,485	12.1	160,807	12.3	199,589	13.0	216,356	12.3

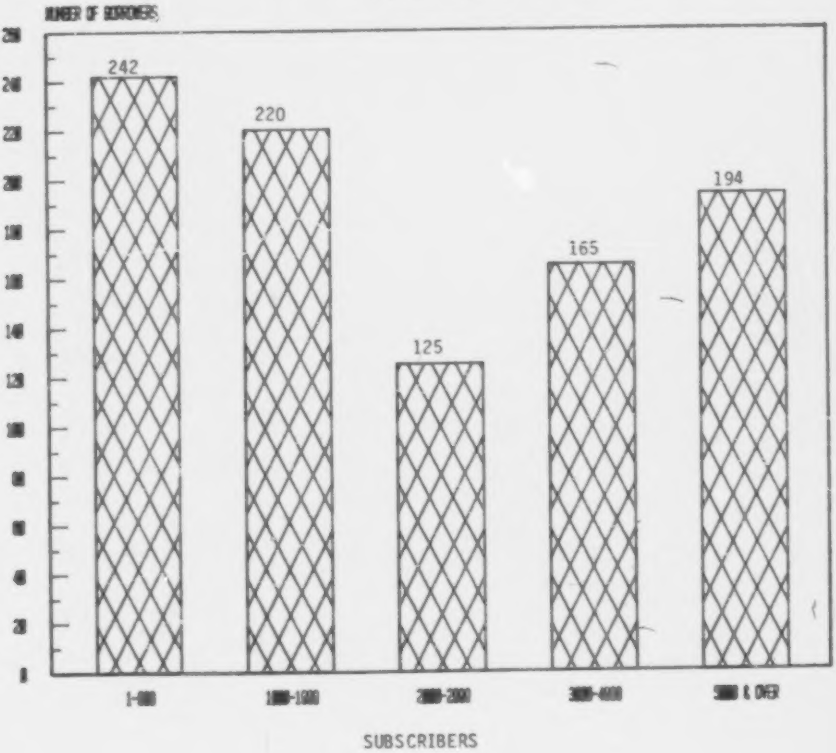
	1981		1982		1983*		1984	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$2,042,065	100.0	$2,388,847	100.0	$2,642,505	100.0	$2,910,194	100.0
Maintenance & Traffic Expense	477,895	23.4	567,870	23.8	579,971	21.9	617,672	21.2
Commercial, General & Other	450,339	22.1	540,339	22.6	595,971	22.5	673,473	23.1
Depreciation & Amortization	423,536	20.8	483,498	20.3	557,648	21.1	603,913	20.8
Taxes	258,441	12.7	299,197	12.5	341,171	12.9	374,059	12.9
Int. on LT Debt (Net)-Regulated	192,568	9.4	215,923	9.0	231,580	8.8	274,370	8.5
Other Fixed Charges	16,657	0.8	13,667	0.6	12,495	0.5	12,872	0.4
Other Income & Deductions (Net)	(39,027)	(2.0)	(45,240)	(1.9)	(44,707)	(1.7)	(64,916)	(2.2)
Net Income or Margin	261,656	12.8	313,593	13.1	369,061	14.0	445,751	15.3

*Revised

Most REA telephone borrowers are quite small businesses, in terms of the number of subscribers they serve. As of December 31, 1984, the average REA telephone borrower served 5,018 subscribers with an average of 5.5 subscribers per route mile.

Chart E-11 SUBSCRIBERS SERVED PER REA TELEPHONE BORROWER

AS OF DECEMBER 31, 1984



Selected operating ratios of borrowers for 1984 and the four prior years are presented below. The ratios of total operating revenues and net operating income or margin to average plant in service show an increase from 27.0 to 30.9 and from 5.9 to 6.8 respectively, in a comparison of 1980 with 1984. The ratios of maintenance and depreciation expenses have also shown increases in this period. The accrual ratio in the five-year period has decreased slightly form 89.1 in 1980 to 86.1 in 1984.

Table E-11

OPERATING RATIOS OF REA TELEPHONE BORROWERS

	1980	1981	1982	1983	1984
Dollars per subscriber:					
Investment (total telephone plant)	$1,733.35	$1,836.36	$1,957.29	$2,059.24	$2,147.66
Plant in service	1,611.77	1,732.24	1,854.25	1,957.36	2,056.34
Plant in serv. less dep. and amort. res.*	1,205.89	1,276.81	1,338.14	1,372.63	1,404.88
Total assets	1,525.88	1,609,60	1,715.43	1,806.47	1,908.38
Percent of average plant in service:					
Total operating revenues	27.0	28.4	29.7	30.7	30.9
Maintenance expenses	5.5	5.9	6.3	6.0	5.7
Depreciation expenses	5.4	5.7	5.9	6.3	6.2
All other operating expenses and taxes	10.2	10.8	11.3	11.8	12.1
Net Operating income or margin	5.9	6.0	6.2	6.6	6.8
Percent of total operating revenue:					
Total operating deductions and Fixed charges (accrual ratio)	89.1	89.1	88.8	87.7	86.9
Other income and deductions (net)	1.4	1.9	1.9	1.7	2.2
Net income or margin-regulated	12.3	12.8	13.1	14.0	15.3

* Prior to 1984, did not include amortization.

OPENING REMARKS

Senator COCHRAN. You may proceed now, as you wish, to make any summary comments that you care to make.

Mr. HUNTER. Mr. Chairman, I appreciate the opportunity to discuss the details of our budget recommendation for REA for 1987.

In simple, direct terms, the budget calls for a reduced lending program. It leads to a total phaseout of lending by 1990. It recommends that you increase the interest rates on REA loans to a level similar to the rates that must be paid by the taxpayers who are providing the loan funds. The budget would require REA to tighten its belt as an agency and to increase its efficiency. If every proposal in this budget is achieved, the electric and telephone industries of rural America will still be in a far more favorable position than is the farming industry of our Nation. Farmers of America are enduring true hardships.

With very few exceptions, rural electric and rural telephone systems have drawn increasing profits and wealth from those suffering farmers. While farmers are struggling to survive, rural utilities have achieved growing prosperity based on rates paid by those farmers.

This co-op prosperity is being enhanced by subsidized interest rates made possible by taxes paid by those same struggling farmers. To add to the injustice of such indifference to the depth of distress among today's farmers, REA records reveal that of the insured loans made by REA in the last 4 years, 67 percent of those loan funds is going to finance projects which have no resemblance to the farm communities of our Nation. In plain words, American farmers are paying taxes to provide subsidies to enrich urbanized utilities. The farmer is paying ever-increasing utility bills which contribute to housing development, subdivisions, retirement communities, and even vacation resorts.

Gentlemen, I respectfully urge you to support the administration's proposed budget for REA. It is in harmony with the goals which must be pursued in order to sustain the momentum that has been stirred in the American economy. Our Nation is on the threshold of a bold, new day, but it trembles. The rebirth of the American economy is healthy and vigorous, but it is still young and fragile.

Gentlemen, you, as Senators, are faced with awesome responsibilities. Our world is full of turmoil and of tragedy. Our Nation is at a turning point. Both domestic and worldwide issues have no easy solutions. The decisions that you make each day can sway the destiny of nations in this world. A casual conversation among you can cause echoes on the prairies of my home State, Oklahoma, and on Wall Street and on Main Street. No one can truly envy you of your responsibilities.

REA is but a tiny program in the immensities of your agenda. It is an injustice that you should have the added buffering of the political winds which swirl around REA as an agency. Pressure for Federal outlays for outmoded and unneeded REA programs cannot be allowed to frustrate your efforts to diminish the budget deficits.

Mr. Chairman and members of the committee, this is just a quick set of comments. I would be glad to respond to any questions that you might have.

Senator COCHRAN. Thanks very much, Mr. Hunter.

I appreciate your presentation to the committee. Somebody in my State said not too long ago to me, "I know you are continuing to appropriate funds for the REA, and Congress hasn't abolished it, but it seems like they are trying to abolish it by the way they administer it."

What is your reaction to a complaint like that?

Mr. HUNTER. Mr. Chairman, we have tried to modify the program over the years. Over the years that we have been here, we have developed and presented proposals which would have addressed the needs of REA borrowers actually requiring assistance in providing electricity and telephone service to rural America.

We have been prevented from doing that. We have been held in abeyance from making changes that we felt would be helpful to the program and helpful to the people that the REA program really ought to serve. We have not violated the directions that this august body has given to REA nor any of the statutes which have been provided to control our actions, even though in some cases they have restricted us from making needed modifications.

We have not misused our authority, even when we feel strongly that certain things ought to be accomplished. We have avoided doing that.

GENERAL FUNDS ISSUE

Senator COCHRAN. We have, in the current fiscal year, language which was approved by this committee that provided that the level of general funds shouldn't be considered in determining eligibility for an REA borrower's getting his loan approved or getting advancement of funds under a loan that had previously been approved.

To what extent has the Administration adhered to that language?

Mr. HUNTER. REA adhered very strictly to the language. We have made very sure that we did not violate it. We respect the fact that the Senate and the Congress had felt strongly about the use of general funds, although it has been a successful tool for some 16 years. We have been very diligent about not violating the statutory requirements.

MAKING MINIMUM LOAN OBLIGATIONS

Senator COCHRAN. Let me ask you about another provision of our bill. Last year, we set a floor in this appropriations bill of $1.1 billion in direct loan authority—electric and telephone—but only $765 million was obligated. This seems to be a problem that recurs each year. Why has the floor not been met in the past few years?

Mr. HUNTER. In this last year, in particular, we found that the borrowers were not making as many applications as they had in the past. REA made the proper committees of Congress aware of the fact that we anticipated a shortfall. It turned out that the applications did not materialize; thus we did not meet the minimum level.

Senator COCHRAN. I have other questions, but other Senators are here, and I am going to defer my remaining questions until they have all had a chance to submit some questions to you.

Senator Burdick.

Senator BURDICK. Thank you, Mr. Chairman.

Mr. Hunter, a brief review of what is happening to the REA programs can be summed up very carefully and very quickly: Electric loans are reduced 60 percent under the budget; telephone loans are reduced 84 percent; telephone bank loans are reduced 25 percent; phaseout in 1990; a levy of 5 percent user fee in direct loans to cover a $22 million rescission in salaries and expenses; interest rate increase from 5 percent to the cost of money plus one and one-eighth.

Do you think this is in the interest of the program and in the interest of the farmers?

Mr. HUNTER. Senator Burdick, I can understand your concern and appreciate it. We have had many things surface that give us considerable feeling about program needs and what is happening in the program.

One of the things that has happened during the last 5 years is a dramatic improvement in the financial position of REA electric and telephone borrowers. In most cases, they have approximately doubled their net revenue flow, their net position as far as the various indicators of what is going on within a particular company or cooperative. All of these have indicated that REA borrowers have been able to strengthen their position, for which we compliment them.

It also indicates that no hardship has been created for them by the approach the agency has been taking. This correlates with our budget proposals for this year, sir.

COMPARABILITY OF RATES

Senator BURDICK. It is a fact that the rural areas are paying higher electric and higher telephone rates than their urban counterparts. As long as we have that disparity, isn't there a continual need for the REA system?

Mr. HUNTER. Those rates vary, of course, and they are, in some cases, higher in rural America; in some cases, they are higher in metropolitan areas. The basic concern is that we must prioritize the most important issues to be addressed. One of the most important items for a farmer is his interest rate on his farm loans, not the cost of electricity. The question of what his interest might be on the farm that he has bought and borrowed money for, and other borrowings for essentials, such as a tractor, feed, seed, and fertilizer. These things are affected and influenced by the degree that outlays are controlled and reduced by the Federal Government.

The payment of the electric bill and the payment of the telephone bill are both affected very minimally by the interest rate that a co-op must pay. The agency has some specific and interesting numbers on this. I had them analyzed again in the last week, and they are almost precisely what they have been in the past: That the payment of interest by distribution co-ops, the payment of interest on the insured REA loans amounts to less than 5 percent of their total cost of operation.

The payment of the interest expense is not a big item. To raise the interest rate does not have a serious impact on the borrower, and therefore does not make much difference in the rates that must be charged to the consumer.

Mr. NAYLOR. Senator, may I add just a short observation to that response?

Senator BURDICK. Yes.

Mr. NAYLOR. If you will permit me.

Senator BURDICK. Surely.

AVAILABILITY OF FUNDS

Mr. NAYLOR. I think we need to be very careful as we look at the REA programs and address the problems of whether or not there are subsidized loan funds available. We are currently faced with several of our largest cooperatives on the brink of bankruptcy. We are engaged in extensive negotiations to ensure their continued viability. I think we will find that some of the managerial and operating decisions have had far more impact upon the cost of electricity to our farmers and rural citizens than the availability of the borrowed funds.

Indeed, I have heard some argue that the availability of subsidized funds may have been part of an enticement to overbuild excess capacity and make other operating decisions on the expenditure of funds which have led to severe financial stress and higher operating rates to individual producers.

I would only suggest that as we evaluate the program, we need to look at the total scope of the operating decisions of the individual cooperatives and the impact that various operating decisions have also had. I think you will find, more often than not, they have had a much more material effect than the availability or lack of subsidized or borrowed money.

Senator BURDICK. Gentlemen, I was around here when REA was born, and REA was born because the farmers of this country couldn't get money, couldn't finance a system like this, and I am just worried, very much worried. If we kill this system, as we plan to do now, in 5 years, will that service be available to farmers in the future? Will it gradually taper off? What will be the costs of this program? These are things that worry me. I think we ought to think again before we end this program.

SERVING NONRURAL AREAS

Mr. HUNTER. Senator Burdick, if I might comment, I appreciate that you repeatedly refer to farmers. I think that is our prime goal. We agree that the farm economy of this Nation is in trouble. I think it is important to note that we have gathered some statistics that illustrate the last 4 years. Over 64 percent of REA loans were for projects for areas which have more than 10 users per mile.

This indicates that a large part of the subsidized funds that REA is lending is going to borrowers for projects which involve the construction of facilities to serve nonfarmers and urbanized communities.

I wish to point out that we agree 100 percent on the needs of farmers in this country. As you know, I come from Oklahoma, and I just talked to a banker in Oklahoma this morning. He is desperate. He called me to talk about what we could do to assist farmers. How can we get FDIC to back off a little bit on the farmers in Oklahoma? He is serious, and he is a very competent, aggressive, good, well-educated banker. But he is concerned deeply, and I am concerned. My kids are out there, and all my property is out there.

So I do want to help the farmer, but I don't see that doing it in this way really reaches the farmer. REA is helping some cooperatives and companies. We are also helping urbanized areas by providing them subsidized costs of electricity. Very little of it is reaching the farmer. Thirteen percent of the people served by rural electric systems in this Nation are farmers. The rest are nonfarm people. That was not the intent of this program when it was designed.

Senator BURDICK. The only thing, Mr. Hunter, is that I disagree violently that the answer is to kill the program, and that is what you are trying to do.

Mr. HUNTER. As you look at the program, Senator, it seems that you have to look at the total program. The program consists of some things that have varying degrees of merit. I can't give a great deal of merit to that part of the program which serves urbanized areas.

Senator BURDICK. Thank you, Mr. Chairman. I will leave you with my time now.

Senator COCHRAN. Your remaining time.

Senator BURDICK. I have more questions.

Senator COCHRAN. Senator Stennis.

Senator STENNIS. Mr. Chairman, I am concerned and interested, too, in the subject here that the Senator from North Dakota had up. For my part, and I've lived in a rural county all my life, I want to highly commend the REA for the administration of their affairs in that area of the State where I am intimately familiar with; for the very high standard they have maintained all over the State—we are an agricultural State—and for the splendid way that the farmers themselves have responded, both for the electricity and for the telephone service.

I know a good number of these managers. They haven't done anything special for me, but they are fine businessmen and have capacity and character and energy and honor and set very high standards. Just because the percentage of customers may be lower in places that REA serves, I don't want to dismember it, tear it down and materially change it. If you move the REA out of there, you don't know what may happen to the rest of that land or the rest of the farmers. I don't know of any appreciable money of any kind you have lost anyway. That is the exception in the Government operation of most programs. They cannot be operated at a profit or even to cover expenses.

But I don't see how you can better the situation as a whole in trying to dismember this agency that is doing such a fine job at such a high standard, at least the ones that I am familiar with. I just don't believe it is right, in the first place; and in the second place, I don't believe you can work out a better system.

I have some figures here. It sounds like boasting, almost, but we have very, very few delinquent accounts in my State—actually there are none. I am told there are just a very few, very few delinquent accounts under any form nationwide, and for the telephone, last year, we didn't have a single delinquent account. Is that correct? Do you happen to know about that?

Mr. HUNTER. I believe that is right, Senator Stennis. The history of the agency and of the program, in general, has been a good history. The integrity of the operation, the degree to which it did meet its responsibility as far as loan programs are concerned is an admirable history, certainly.

Senator STENNIS. Yes.

Mr. HUNTER. In these times, when there are so many responsibilities on folks like you, it becomes imperative that we look at value, ascertain the strengths, and weigh the merits and the weaknesses of every program. This program does have strengths, but it also has weaknesses.

DELINQUENT BORROWERS

Mr. NAYLOR. Senator Stennis, you have a right to be very proud of the repayment record of the co-ops in your area, and telephone companies.

However, the picture on losses is changing dramatically even as we speak. There are a growing number of generation and transmission facilities, the units among the rural electric co-ops that actually generate the power and provide it to the local distribution co-ops, that are experiencing severe financial problems related to overbuilding and other managerial decisions that were made over the last decade or so. There appears an increasing likelihood that we will lose a very substantial amount of money as a result of trying to make adjustments and work out problem loans of some cooperatives.

The program record, regrettably, will probably be substantially blemished in the next several years as workout arrangements are made. The Government and private sector lenders that have substantial amounts of money invested in these facilities are now faced with the problem of working with those utilities in trying to resolve their inability to repay the debt that they have incurred.

Senator STENNIS. It is hard to convince a hardheaded fellow like me who started out as a young lawyer when you had to beg your way to get any rural area covered by electricity and other services that passed up the farmer. The telephone situation was the same, although fortunately, in our State, we had private service in most of the areas. Some of these groups have some difference in the character and the standards of the people you have got running the REA businesses, yours as compared to others.

With the defects of management and the character that is supposed to go with it, you are going to have defects in our whole system. If you have high-tech management, in rural areas like I figure the REA has, and you make drastic reductions, you will take away from the people the agencies that have really brought them out of the mud and brought them out of the dark and furnished them some insurance. Without this chance, they will probably deteriorate in a hurry, many of them will, if you take this away from them. I think we ought to go awfully slow, awfully slow, before we lay the groundwork here to abolish these agencies and undo a certain good until things are a whole lot better and more certain than they are now.

I don't want to take up an excessive amount of your time here now, so I thank these gentlemen for what they are doing and for their patience.

Senator COCHRAN. Thank you very much, Senator Stennis.

Senator Andrews.

Senator ANDREWS. Thank you, Mr. Chairman. Good to see you again, Harold.

Mr. HUNTER. Thank you.

AREA COVERAGE

Senator ANDREWS. The problem I get into with all this is we seem to be going up and down the hill. Time after time after time we have revisited the Rural Electric Program. We have thought we have saved it; we thought we have made our point, and I sit here and hear you respond that somehow or another, there is getting to be a high percentage of nonfarmer members of rural electric co-ops. Have you abandoned the idea of areawide service suddenly someplace?

Mr. HUNTER. No, sir; we are still continuing that.

Senator ANDREWS. I know, but isn't that important? I mean, why knock the fact that these rural electrics are out there serving farmer and nonfarmer rural residents alike? I thought the concept was comparability of cost. Isn't that true?

Mr. HUNTER. You make a very good point. I think it ought to be emphasized. Some of rural America is changing and some parts of the rural areas are changing more than others.

Senator ANDREWS. That is right, but the point is if they become urbanized, and if that density goes down, then they don't get these favorable rates; isn't that true?

Mr. HUNTER. They get precisely the same treatment from REA regardless of how urban they are or how rural they are, sir.

Senator ANDREWS. I thought we evidenced the formula, Mr. Hunter, and I thought you give a better percentage to those low-density co-ops.

Mr. HUNTER. Only in the case of absolute hardship. The density factor does not have any impact on our normal distribution of REA loan funds.

Senator ANDREWS. How do you decide who gets a 5-percent loan now?

Mr. HUNTER. Every borrower gets 5-percent loans.

Senator ANDREWS. And you don't have any change as far as density?

Mr. HUNTER. No, sir.

Senator ANDREWS. Wouldn't you be better off looking at density?

Mr. HUNTER. Yes, sir.

Senator ANDREWS. That is why we put it in the law, isn't it?

RATIO AND CRITERIA

Mr. HUNTER. The law says that we cannot change the ratio and criteria, but makes no distinction on varying densities. REA must make its insured loans on the basis of a 70-to-30 ratio, with 70 percent REA money and 30 percent supplemental funds, and the loans are made at a 5-percent interest rate.

The only rare exceptions are those situations where REA establishes an absolute hardship; for example, some of the desert areas of America and some areas in Alaska, but they are very unusual, very unique. Other than that, there is no variation in the type of treatment and financial support that is given.

Senator ANDREWS. The problem we get into is that we have discussed this three, four, five times, as many budgets as this administration has submitted, and we have put it in the budget resolution; we have put it the appropriations process; we have put it in the authorizing legislation. You would almost think it would be done.

You know, out in farm country, neighbors are neighbors, and they trust them and they understand them. Once you get the word, you live by it.

Now, we had an exchange of letters, as I recall, between the head of the Office of Management and Budget, Senator Dole, some of the rest of us in a package, and we had an agreement on where we were going in rural electrification. So, why is the administration's budget proposal for fiscal 1987 calling for $1.2 billion worth of cuts when, under that agreement, those cuts should only be $78 to $80 million?

Mr. NAYLOR. Senator Andrews, if I may, on behalf of the administration, respond to your question.

Senator ANDREWS. I figured we would get you into this, Frank, sooner or later.

Mr. NAYLOR. I think some very significant things have happened since those discussions occurred, and perhaps most significant is the Gramm-Rudman legislation, which materially changed the budgetary process and our allocation of funds. I think the problem that we now face and share with the Members of Congress is that we have a finite amount of funds available. Management and OMB were compelled to make the best allocation of resources that we could under these new guidelines. Indeed, the management of the Department of Agriculture did make the decision that, based on the current economic conditions being faced by our farmers, allocation of resources had to be made predominantly to the farm programs and the problems faced in that area.

Senator **Andrews**. But Frank, the $78 to $80 million takes Gramm-Rudman into effect; it takes Gramm-Rudman into account. The $1.2 billion is the meat-ax approach that is beyond Gramm-Rudman.

You also have a situation where the Senate Budget Committee, I hope you know, passed a new budget resolution that will be in place of Gramm-Rudman, and you don't have to make these meat-ax cuts. Isn't that also the facts, the way they are?

Mr. **Naylor**. Senator, I am well aware that the Congress continues to wrestle with options of Gramm-Rudman.

Senator **Andrews**. No, we don't continue to wrestle with it. We thought we had wrestled this dog to death. We thought finally, you were going to get it through your pumpkin heads how important it was and how determined the Congress—the people's branch—was, that we continue a sensible rural electrification process. You came up to us in the Budget Committee. This is the first crack we had at this since in the Budget Committee.

We will do it in the Appropriations Committee and in the authorizing committee. But we are sure causing a lot of anxiety to rural people who are already too much put upon. Let us be candid about it. You came up and you wanted a 10-million-dollar-a-year levy on rural electric G&T's, isn't that right? And didn't we turn you down?

Mr. **Naylor**. Senator, as you well know, we are going to continue to have to make choices, as you are, with these resources.

Senator **Andrews**. You asked for these reasons, and we turned you down.

Mr. **Naylor**. We will have to trade them off.

LOAN ASSET SALES

Senator **Andrews**. We traded them off, and you wanted $100 million in sale of rural electric loan funds. You get 54 cents on the dollar, you take away the backing behind these rural electric co-ops; you don't help anybody. Selling Government assets for 50 cents on the dollar, gosh, you know, that doesn't make such sense.

Are you happy with the changes we have made in the Senate Budget Committee?

Mr. **Naylor**. Senator, I must apologize, I haven't had the opportunity to fully review those changes. I would be happy to sit down and discuss with you and other members the sale of assets and whether or not they are benefits or a cost to the taxpayers.

Senator **Andrews**. You don't have any problems with our denying you the right to make those wrong-headed moves, do you?

Mr. **Naylor**. I hope that you would take another look at it, Senator.

Senator **Andrews**. We have.

Mr. **Naylor**. You might find some conditions under which it would be to the benefit of everyone concerned, including the taxpayers and the cooperatives. There is no shortage of funds available to the industry now. Indeed, you made a change in the farm bill in which you now encourage the Farm Credit System to expand its activity in lending to the rural utility industries of this country.

Senator ANDREWS. That is right, because you keep shutting down the other windows. Why do you continue to come up with a 5-year plan to phase out, totally, rural electrification? Do you think the job is done out there?

Mr. NAYLOR. Senator, we do believe that the utilities have the capacity to enter the commercial market and compete effectively for funds.

Senator ANDREWS. And provide the service to those rural electric member owners at a price that is comparable to what their city cousins pay?

Mr. NAYLOR. Senator, I would dare say that if we had some detail that we would find that management operating decisions are impacting on those costs as much or more than the availability of funds. I think we need to look at that prospect.

I understand the problem here. I think we need to look at the allocation of funds, and indeed, we are finding that, increasingly, funds are not going to your State or to your rural areas, that they are going not to simply small communities within a rural area, but to major metropolitan areas.

Suburban Washington, DC is receiving 5-percent money. I question whether or not that was really the intent of Congress when it put this program into place.

SERVICE TO NONRURAL AREAS

Senator ANDREWS. How have you moved so far away from the density formula that we wrote in? I remember years ago, we wanted to come up with a formula that was equitable across the board. We said that only in low-density cooperatives, those cooperatives that had fewer than two consumers, as I recall, per mile-line, would we give these special, special low-interest loan rates. Because we are not looking for a subsidized program; we are looking for comparability of rates. If the facts don't evade me, I think that the typical rural electric consumer still pays 17 percent more for his or her electric service than the immediately adjoining private utility consumer.

So obviously, we haven't even reached comparability yet. And if we do away with the density criteria and the low interest and the special concessions, we are going to be forcing these people in the country to pay 20, 25, 30, 40 percent more for power and we are going to deny them the right to get an adequate buildup of those lines that hang out there in the weather and have all kinds of damage that isn't inflicted on normal co-ops.

Mr. NAYLOR. Your observation is very true, and we would not disagree with it. Unfortunately, that is not what Congress has done. Congress has prohibited us, not directed us, to take advantage of these criteria. This would allow us to move away from supplying funds to highly urbanized metropolitan areas. Increasingly, many of the rural electric cooperatives have made their expansion and growth in urban areas that are clearly not rural.

I think the clearest and simplest example is that REA is financing utilities serving suburban areas. I am sure the act never anticipated that or many other similar areas. Currently, under the guidelines that have been forced on us in report language or appropriation language and from other sources in Congress, we are prohibited from applying the very standards which you advocate.

Senator ANDREWS. Let me finalize this, because I have taken too much of the committee's time. One assurance I would like to get, as we go through this whole process for the 35th year, and we restore in the Budget Committee and in this committee, and in the authorizing committee that the Senator from Mississippi sits on with me, Mr. Naylor, as the Assistant Secretary in charge of this shop, will you and Mr. Hunter live up to the congressional directives we give to you and not try to somehow or another back door return to the original requests you made that were turned down by the Congress?

Mr. NAYLOR. Senator, we will always abide by the actions passed by the Congress and signed by the President. However, we will represent the President and present our recommendation for revisions to those programs on each occasion it is appropriate to do so.

Senator ANDREWS. That is why you come on that side of the table. One of the things that depresses us on this side of the table is that we write it, then after it is passed and signed, there is a certain amount of tampering that goes on out there under your direction and the direction of people responsible to you that tends to unhinge that which we have put together. Hopefully, with this pledge, we can understand that what we put together in this committee is the way it is going to be administered out there in the field.

Mr. HUNTER. Senator Andrews, with your permission, I would like to provide you with a package of documents, that illustrates how REA is prohibited from doing some of the things that I think you sincerely want to see us do. REA is prevented from using density as a criteria other than in very unusual situations, to make loan determinations. We would like to do that.

Senator ANDREWS. Harold, this is a constant learning process. I could only learn from getting that documentation. We would appreciate getting it. I think we can make good use of it.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator Andrews.

[The information provided by REA follows:]

The following excerpts from Congressional Reports and Appropriation Acts from 1982 to 1986 indicate how REA has been prohibited from varying its application of ratios and criteria established in 1982. In addition, the language provides that REA may not take into consideration a borrower's general funds level in reviewing loan applications.

[Excerpt from Senate Report No. 97-248, page 61.]

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

ELECTRIC LOANS

1981 loan authorization	$850,000,000
1982 budget estimate	700,000,000
House allowance	1,100,000,000
Committee recommendation	1,100,000,000

TELEPHONE LOANS

1981 loan authorization	$250,156,000
1982 budget estimate	....
House allowance	325,000,000
Committee recommendation	325,000,000

The Committee commends REA for maintaining stable ratios of concurrent and supplemental loans at the current levels and will expect the Agency to continue the ratios now in effect.

For insured loans to rural electric systems, the Committee recommends a floor of $850,000,000 and a ceiling of $1,100,000,000. For insured telephone loans the Committee recommends a floor of $250,000,000 and a ceiling of $325,000,000.

This action reflects the same levels as proposed by the House. The budget proposed a ceiling of $700,000,000 on electric loans and no insured loan program for telephone systems.

The Committee also recommends the addition of bill language to establish a minimum of $5,145,000,000 and a maximum of $6,400,000,000 of total loan principal contingent liability for commitments made in the REA loan guarantee program.

The Committee will expect REA borrowers to continue to have access to the Federal Financing Bank as a source of loan funds.

[Excerpt from House of Representatives Report 97-172, page 81.]

RURAL ELECTRIFICATION ADMINISTRATION

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

LOAN AUTHORIZATIONS

1981 appropriation	($1, 100, 000, 000)
1982 budget estimate	(700, 000, 000)
Recommended in the bill	(1, 100, 000, 000)
Comparison:	
1981 appropriation	(--------------)
1982 budget estimate	(+400, 000, 000)

The Rural Electrification Administration was established by Executive Order 7037 of May 11, 1935, to make loans for extension of central station electric service to unserved rural people. It was continued by the Rural Electrification Act of May 20, 1936. In 1949, Public Law 423 amended the Act to authorize loans for furnishing and improving rural telephone service.

On May 11, 1973, new legislation was enacted which amended the "Rural Electrification and Telephone Revolving Fund." This permits the REA program to continue with minimal budgetary effect, while allowing a 5-percent interest rate to most borrowers and a 2-percent rate to borrowers qualifying for the lower interest rate. The amendment also authorized REA to guarantee loans made by other lenders at rates and terms agreed upon between the borrower and the lender.

The Committee also commends REA for maintaining stable ratios of concurrent REA and supplemental loans at the current levels and will expect the Agency to continue the ratios now in effect.

For insured loans to rural electric systems the Committee recommends a floor of $850,000,000 and a ceiling of $1,100,000,000. For insured telephone loans the Committee recommends a floor of $250,000,000 and a ceiling of $325,000,000.

The budget proposed a ceiling of $700,000,000 on electric loans and no insured loan program for telephone loans.

[Excerpt from House of Representatives Report 97-800, page 82.]

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

LOAN AUTHORIZATIONS

1982 appropriation	($1,100,000,000)
1983 budget estimate	(700,000,000)
Recommended in the bill	(1,100,000,000)
Comparison:	
1982 appropriation	(......................)
1983 budget estimate	(+400,000,000)

The Committee again commends REA for maintaining stable ratios of concurrent REA and supplemental loans at the current levels, and during fiscal year 1983 the administrator is expected to provide borrowers supplemental financing in accordance with applicable criteria and ratios in effect as of July 15, 1982.

For insured loans to rural electric systems the Committee recommends a floor of $850,000,000 and a ceiling of $1,100,000,000. For insured telephone loans the Committee recommends a floor of $250,000,000 and a ceiling of $325,000,000. The budget proposed a ceiling of $625,000,000 on electric loans and a ceiling of $75,000,000 on telephone loans.

[Excerpt from Senate Report No. 97-545, page 69.]

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

ELECTRIC LOANS

1982 loan authorization	($850,000,000)
1983 budget estimate	(625,000,000)
House allowance	(850,000,000)
Committee recommendation	(850,000,000)

TELEPHONE LOANS

1982 loan authorization	($250,000,000)
1983 budget estimate	(75,000,000)
House allowance	(250,000,000)
Committee recommendation	(250,000,000)

The Committee commends REA for maintaining stable ratios of concurrent and supplemental loans at the current levels and will expect the Agency to continue the ratios now in effect.

For insured loans to rural electric systems, the Committee recommends a floor of $850,000,000 and a ceiling of $1,100,000,000. For insured telephone loans the Committee recommends a floor of $250,000,000 and a ceiling of $325,000,000.

This action reflects the same levels as proposed by the House. The budget proposed a ceiling of $625,000,000 on electric loans and $75,000,000 for telephone loans.

The Committee also recommends the addition of bill language to establish a minimum of $4,745,000,000 and a maximum of $5,950,000,000 of total loan principal contingent liability for commitments made in the REA loan guarantee program.

The Committee will expect REA borrowers to continue to have access to the Federal Financing Bank as a source of loan funds.

The Congress has continuously directed the REA to provide borrowers supplemental financing in accordance with applicable criteria and the ratios in effect during prior years. The Committee has been made aware of efforts to ignore this directive. Therefore, the Committee has added bill language which shall require the applicable criteria and ratios in effect as of July 15, 1982, to be maintained.

[Excerpt from House of Representatives Report No. 98-231, pages 72-73]

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

LOAN AUTHORIZATIONS

1983 appropriation	($1,100,000,000)
1984 budget estimate	(575,000,000)
Recommended in the bill	(1,100,000,000)
Comparison:	
1983 appropriation	....
1984 budget estimate	(+525,000,000)

The Committee again commends REA for maintaining stable ratios of concurrent REA and supplemental loans at the current levels, and during fiscal year 1984 the Administrator is expected to provide borrowers supplemental financing in accordance with applicable criteria and ratios in effect as of July 15, 1982.

For insured loans to rural electric systems the Committee recommends a floor of $850,000,000 and a ceiling of $1,100,000,000. For insured telephone loans the Committee recommends a floor of $250,000,000 and a ceiling of $325,000,000. The budget proposed a ceiling of $500,000,000 on electric loans and a ceiling of $75,000,000 on telephone loans.

For guaranteed loans to rural electric systems the Committee recommends a floor of $4,600,000,000 and a ceiling of $5,700,000,000. For guaranteed telephone loans the Committee recommends a floor of $145,000,000 and a ceiling of $250,000,000. The levels recommended for guaranteed loans are the same as for fiscal year 1983.

[Excerpt from Senate Report 98-160, page 73.]

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

ELECTRIC LOANS

1983 loan authorization	($850,000,000)
1984 budget estimate	(500,000,000)
House allowance	(850,000,000)
Committee recommendation	(850,000,000)

TELEPHONE LOANS

1983 loan authorization	($250,000,000)
1984 budget estimate	(75,000,000)
House allowance	(250,000,000)
Committee recommendation	(250,000,000)

The Committee commends REA for maintaining stable ratios of concurrent and supplemental loans at the current levels and will expect the Agency to continue the ratios now in effect.

For insured loans to rural electric systems, the Committee recommends a floor of $850,000,000 and a ceiling of $1,100,000,000. For insured telephone loans the Committee recommends a floor of $250,000,000 and a ceiling of $325,000,000.

This action reflects the same levels as proposed by the House. The budget proposed a ceiling of $500,000,000 on electric loans and $75,000,000 for telephone loans.

The Committee also recommends the addition of bill language to establish a minimum of $3,360,000,000 and a maximum of $4,145,000,000 of total loan principal contingent liability for commitments made in the REA loan guarantee program. These figures assume a minimum guaranteed loan level of $3,235,000,000 for the electric program and a minimum guaranteed loan level of $125,000,000 for the telephone program.

It has been brought to the Committee's attention that the minimum level of guaranteed loan commitments contained in the fiscal year 1983 bill will not be achieved due to the significant slowdown in construction of electric generating plants and related bulk transmission lines, and to general economic factors in rural America. The Committee recognizes that without applications to fund, the minimum loan level cannot be achieved. The Committee does not view the fiscal year 1983 shortfall as precedent setting and will expect the minimum to be met in fiscal year 1984.

The Committee will expect REA borrowers to continue to have access to the Federal Financing Bank as a source of loan funds.

The Congress has continuously directed the REA to provide borrowers supplemental financing in accordance with applicable criteria and the ratios in effect during prior years. The Committee has been made aware of efforts to ignore this directive. Therefore, the Committee has once again provided bill language which requires the applicable criteria and ratios in effect as of July 15, 1982, to be maintained.

[Excerpt from Senate Report 98-566, page 86.]

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

ELECTRIC LOANS

1984 loan authorization	($850,000,000)
1985 budget estimate	(500,000,000)
House allowance	[1] (841,500,000)
Committee recommendation	(850,000,000)

[1] Reflects a 1-percent reduction of $8,500,000, as required by section 629.

TELEPHONE LOANS

1984 loan authorization	($250,000,000)
1985 budget estimate	(75,000,000)
House allowance	[1] (247,500,000)
Committee recommendation	(250,000,000)

[1] Reflects a 1-percent reduction of $2,500,000, as required by section 629.

COMMITTEE RECOMMENDATIONS

The Committee commends REA for maintaining stable ratios of concurrent and supplemental loans at the current levels. During fiscal year 1985, the Administrator is expected to provide borrowers supplemental financing in accordance with applicable criteria and ratios in effect as of July 15, 1982.

For insured loans to rural electric systems, the Committee recommends a floor of $850,000,000 and a ceiling of $1,100,000,000. For insured telephone loans the Committee recommends a floor of $250,000,000 and a ceiling of $325,000,000. The budget proposed a $500,000,000 limitation on insured electric loans and a $75,000,000 limitation on insured telephone loans.

The Committee concurs with House action in establishing a minimum of $1,325,000,000 and a maximum of $2,345,000,000 of total loan principal contingent liability for commitments made in the REA loan guarantee program. These figures assume a minimum guaranteed loan level of $1,200,000,000 for the electric program and a minimum guaranteed loan level of $125,000,000 for the telephone program.

It has been brought to the Committee's attention that the minimum level of insured and guaranteed loan commitments contained in the fiscal year 1984 bill will not be achieved due to general economic factors in rural America. The Committee recognizes that without applications to fund, the minimum loan levels cannot be achieved. The Committee does not view the fiscal year 1984 shortfall as precedent setting and will expect the minimum to be met in fiscal year 1985.

[Excerpt from House of Representatives Report 98-809, page 77.]

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

LOAN AUTHORIZATIONS

1984 appropriation	($1,100,000,000)
1985 budget estimate	(575,000,000)
Recommended in the bill	(1,100,000,000)
Comparison:	
1984 appropriation	....
1985 budget estimate	(+525,000,000)

The Committee again commends REA for maintaining stable ratios of concurrent REA and supplemental loans at the current levels, and during fiscal year 1985 the Administrator is expected to provide borrowers supplemental financing in accordance with applicable criteria and ratios in effect as of July 15, 1982.

For insured loans to rural electric systems the Committee recommends a floor of $850,000,000 and a ceiling of $1,100,000,000. For insured telephone loans the Committee recommends a floor of $250,000,000 and a ceiling of $325,000,000. The budget proposed a ceiling of $500,000,000 for electric loans and a ceiling of $75,000,000 for telephone loans.

For guaranteed loans to rural electric systems the Committee recommends a floor of $1,200,000,000 and a ceiling of $2,200,000,000. For guaranteed telephone loans the Committee recommends a floor of $125,000,000 and a ceiling of $145,000,000. The budget proposed a ceiling of $1,200,000,000 on guaranteed electric loans and a ceiling of $125,000,000 on guaranteed telephone loans.

[Excerpt from House Appropriations Act for fiscal year 1986, page 37.]

RURAL ELECTRIFICATION ADMINISTRATION

To carry into effect the provisions of the Rural Electrification Act of 1936, as amended (7 U.S.C. 901–950(b)), as follows:

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND LOAN AUTHORIZATIONS

Insured loans pursuant to the authority of section 305 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 935), shall be made as follows: rural electrification loans, not less than $650,000,000 nor more than **(60)** ~~$1,100,000,000~~ *$850,000,000*; and rural telephone loans, not less than $250,000,000 nor more than $325,000,000; to remain available until expended: *Provided,* That loans made pursuant to section 306 of that Act are in addition to these amounts but during 1986 total commitments to guarantee loans pursuant to section 306 shall be not less than $975,000,000 nor more than **(61)** ~~$2,345,000,000~~ *$2,045,000,000* of contingent liability for total loan principal: *Provided further,* That as a condition of approval of insured electric loans during fiscal year 1986, borrowers shall obtain concurrent supplemental financing in accordance with the applicable criteria and ratios in effect as of July 15, 1982 **(62)***: Provided further, That no funds appropriated in this Act may be used to deny or reduce loans or loan advances based upon a borrower's level of general funds.*

SENATOR ABDNOR'S REMARKS

Senator COCHRAN. Senator Abdnor.

Senator ABDNOR. Thank you, Mr. Chairman.

I just have to add my thoughts and tell Mr. Hunter and Mr. Naylor how disappointed I am. During last year's debate on the budget I was the individual trying to work out some common agreement between the REA, the National Rural Electric Cooperative Association, and the administration. I was involved in three different meetings with people from all sides. I thought we finally came to this great agreement. It was all put into writing and all signed by different individuals. Mr. Stockman was there, representing OMB any time I had any discussion with you. Mr. Oglesby was there from the White House, participating in all discussions, along with Mr. Dole, and Mr. Domenici. We agreed to some reductions, finalized the agreement, and we all put it in writing and signed it. I have copies of the letter.

I thought that was it. No one told me that we were just negotiating for 1 year. I thought this was the long-term basis for the REA Program, at least during this administration. Everything I heard was, "Fine, it is all settled." Unfortunately, the administration hasn't kept its end of the bargain.

As a matter of fact, the REA National Association was willing to take their lumps with Gramm-Rudman, and they still are, whatever is an acceptable figure.

But I was shocked and extremely disappointed, to say the least, when the same proposal to phase out REA which we scrapped last year came back before us again. I don't understand that. That simply wasn't the general understanding of the people who were involved. It bothers me just to think that you would go ahead and forget everything we agreed to in the past. Where I come from, when you agree to something, you agree to it.

Don't you folks think there is any obligation to honor the agreement we reached?

Mr. NAYLOR. Senator, I think the people certainly dealt in good faith and intended to proceed under the agreement. Conditions have changed markedly since then.

Senator ABDNOR. It wasn't that long ago, either.

Mr. NAYLOR. In terms of having to meet deficit targets under the provisions in Gramm-Rudman, and considering the resources available to agriculture and, I think, as you have shared our concern, that we were compelled to allocate those resources to farmers and ranchers who are feeling substantial economic strain.

Obviously, that is a recommendation made by officials of the executive branch, and Congress, of course, has the opportunity to evaluate allocating those resources in some other fashion. But the dilemma we face if we are to reduce the deficit and carry out the objectives of Gramm-Rudman, is that a tradeoff will have to be made. In this instance REA decided that our farmers and ranchers were the ones who should have funds allocated.

Senator Abdnor. I have never voted for a tougher package in my life than I did less than a year ago when we finally voted on that budget bill. That was about as tough a package of cuts as you can make. You freeze Social Security and you freeze everything else down the line; that is 10 times worse than the Gramm-Rudman cuts that we put into effect. I supported that.

But, the REA agreement was very much a part of that package of tough cuts. It would seem to me that if the REA agreement was fit to be in there under those circumstances, certainly nothing has changed that much to think that we now ought to take these drastic steps.

Look at your own figures on the budget outlays for rural electrification. Going back to 1981 through 1985, you found a reduction of 2.9 percent in 1982; 32.4 percent in 1983; in 1984 it was reduced 35.35 percent; in 1985 it was 21.5 percent.

Now, that is a 66.8-percent drop since 1981. That is not exactly being a piker. I mean, this is a major reduction. So you can't say this organization hasn't been willing to cut back on outlays.

I don't think this is deserving. At least that is not the way we go about—violating agreements— back in my country. I thought this was a bona fide agreement, and I made a tough budget vote partially on the basis of the agreement we made with the REA. That was an important reason why I was willing to make the kinds of votes I made at that time.

Now, suddenly, we come along with this big change.

Mr. Hunter. Senator Abdnor, might I respond briefly, please?

Senator Abdnor. Sure.

Mr. Hunter. I think not only do we have to recognize that the budget deficit is a continuing problem, but it is overwhelming and it transcends almost all other issues that we face. I think it needs to be noted that the rural electric and rural telephone borrowers who have used REA moneys during the last 5 years improved their fiscal positions in a very dramatic way. The reduction in our loan programs over the last 5 years has not created any hardship for REA borrowers, since cooperatives and telephone companies have improved their fiscal position dramatically since 1981.

We are seeing two things. These two work with each other and point up continuing a diminishing approach regarding the program, which is what we are espousing today.

Senator Abdnor. I just happen to think that REA borrowers are making a good-faith attempt and are willing to accept some cuts. But, in your proposed reductions you would reduce the REA-insured lending below the 1987 floor. You would have a cut of 39.7 percent. Considering all the other cuts that have gone before, that is pretty drastic. That means that REA electric loan guarantee commitments in 1987 would have a 72.3-percent cut. I think REA borrowers are trying to be fair. They are willing to talk reductions. They thought we had done that, but if they had ever had any inkling that they were talking about something like this, there is no doubt in my mind, the agreement would have never, never been agreed to.

I don't know what would have happened. We probably would have never passed the budget in the Senate. It surely wouldn't have had that one vote majority that it had.

PROPOSED REORGANIZATION

Let me ask you one other thing. What are the implications of this proposed reorganization plan for REA employees and customers in rural areas like South Dakota? You have come up with a proposed reorganization, haven't you?

Mr. HUNTER. We have recommended—and these recommendations have been approved—a reorganization that contains some rather basic changes. For many years now, we have had five area divisions that serve electric, telephone, and accounting. We are changing that to four area divisions.

This reflects the fact that over many years, REA has reduced the total number of people employed. Some of the areas now have a minimum number of people in each, and the reorganization will bring in a good organizational structure that will make effective use of staff resources.

Senator ABDNOR. But, there are not any fewer lines to take care of. We have less farmers—they are going out of business—and less people living in our towns, I will agree, but everything still needs maintaining as it did before. The usage is still there. I don't think it has dropped any. What happens? Don't you think that is going to have an effect on our employees and customers?

Mr. HUNTER. No, sir; I don't believe so. In fact, we have considerably improved our turnaround time on the servicing of loans in the last 2 or 3 years. The loan processing time has been reduced to approximately 3 weeks. In past years it was considerably more than that.

We are working to create an organizational structure that will be more efficient and feasible than we had in the past.

Senator ABDNOR. Do you have an idea of the geographical lines on this yet?

Mr. HUNTER. When we talk about an area office, it is physically located in Washington, DC. We do not have any field offices, per se.

Senator ABDNOR. In that area office here, there would be no difference, no changes?

Mr. HUNTER. We will have to change the configuration of the States that answer to the various areas. The change will be geographic. The new areas will represent the four geographic corners of the Nation. They will be designed to bring into focus the relationships with the G&T's on the electric side, in particular. We do not see this as being disadvantageous to anybody.

Mr. NAYLOR. Senator, those area offices are physically located in Washington. We don't have field offices like the other departmental agencies. There are employees located in the field, but this change is for a better utilization of resources. Mr. Hunter has developed an effective organization structure, and I think it will serve our REA borrowers quite well.

Senator ABDNOR. Mr. Chairman, I guess I have probably taken my time, but more than that, I am supposed to be somewhere with a whole group of people. I will come back.

Senator COCHRAN. Nobody else is going to be here. [Laughter.]

You can submit some questions if you wish to do that.

Senator ABDNOR. All right. I hope I get back before you recess.

Senator COCHRAN. I have a few more questions, just to let you know my plans, and then we will adjourn the hearing.

Senator ABDNOR. Did FmHA testify?

Senator COCHRAN. No; we just had crop insurance.

Senator ABDNOR. Oh. I do have some other questions here, but I can submit them in writing.

Senator COCHRAN. We can submit them. I am sure the witnesses will see that they are answered in an expeditious way.

Senator ABDNOR. I am already late. I am sorry.

Senator COCHRAN. We appreciate your being here and your contribution to the hearing.

PREPARED STATEMENT

Senator ABDNOR. I have a statement, too, I want to submit.

Senator COCHRAN. Without objection, it will be included in the record.

[The statement follows:]

STATEMENT OF SENATOR ABDNOR

In April 1985, we made a solemn agreement signed by Senate Majority Leader Bob Dole, and by former OMB Director David Stockman stipulating loan levels for both of the REA's loan programs for fiscal years 1986, 1987, and 1988. The bottom line was "no phaseout" for REA programs.

Less than a year later, the administration once again threw down the gauntlet on the REA Program. Calling for a total program phaseout by 1990, they decided in the interim to impose a number of other "draconian" provisions, like raising interest rates and adding service fees that would have had rural electric systems borrowing at an effective interest rate of 16.5 percent.

After fighting vigorously to arrive at last year's compromise agreement between the Senate leadership and the administration, I am outraged to hear the administration has decided to unilaterally renege on its agreement. I'm sorry but that's not the way we negotiate where I come from. REA is more than willing to do its fair share to reduce Government red ink, but where do you draw the line? In no way can I stand for the administration's proposal. I'm committed to last year's agreement and I hope this committee will abide by that agreement.

SALARIES AND EXPENSES

Senator COCHRAN. Let me ask a couple more questions.

We have a chart that accompanies the budget request in the explanatory notes showing that no cuts are planned in any field staff for REA. There is another chart that shows a $624,000 decrease in personnel compensation for field staff. That confuses us.

Could you explain what the difference is in that? Have we misread the explanatory notes?

Mr. HUNTER. Senator, I am not sure what the answer might be. May we provide the answer?

Senator COCHRAN. That will be fine, just a clarification of that. I don't really think that any cutbacks in field staff are intended, looking at the entire proposal.

Mr. HUNTER. They are not.

Senator COCHRAN. Staffing cutbacks that are mentioned in the budget and in the explanatory notes seem to relate to headquarters; a 10-percent cut is contemplated. But then when we look at another chart that accompanies the budget, there is a $624,000 decrease in personnel compensation for field staff. We just wondered why that was there.

Mr. HUNTER. REA intends to maintain the current staff-year level of 135 in the field during fiscal year 1987. Within the total salaries and expenses funds that we have requested in the 1987 budget, there are adequate funds for a full complement of field employees.

RURAL TELEPHONE BANK

Senator COCHRAN. Let me ask you, What is the current interest rate that is being charged for Rural Telephone Bank loans?

Mr. HUNTER. The interest rate currently is 8.5 percent. We are, at the present time, looking at what we should do for the next quarter. One of the things that is happening, as this administration continues in office, is that interest rates in general and the cost of money to the Government are decreasing day by day. This is making it possible for REA to reduce the Rural Telephone Bank interest rate, as we have done in the past, and are considering the possibility of doing so again.

Senator COCHRAN. As these interest rates become lower, these savings are being passed on, are they not, to borrowers under these programs? Is that right?

Mr. HUNTER. They are. The interest rate charged to our borrowers, of course, is affected by the lowering of the cost of money.

Senator COCHRAN. It is tied to the cost of money to the Government, right?

Mr. HUNTER. Absolutely. Not too long ago the interest rate was 9 percent. Now it is down to 8.5 percent. We are thinking about going to 8 percent. That all relates to the cost of money to the creditor.

INTEREST RATE DIFFERENTIAL

Senator COCHRAN. What is the difference to a borrower who has to go out and compete in the commercial market for money as compared to a person or to an entity that is qualified for Rural Telephone Bank loans?

What is the differential now?

Mr. HUNTER. I am not too sure of your question, but let me relate to one thing that might provide an answer.

Senator COCHRAN. If there were no such thing as a Rural Telephone Bank, and you had a rural telephone company and you wanted to borrow money, how much would you have to pay?

Mr. HUNTER. Let me approach it this way and see if it helps: If we raise the interest rate on insured loans from the revolving fund, as proposed in the budget, to the cost of money from Treasury plus 1$^1/_8$ percent, which sounds fairly drastic, that would raise REA's interest rate to approximately the same level as the rate charged to an AA-rated borrower in private capital markets.

Senator COCHRAN. That was basically what I was getting at; what is the differential that is being recommended by the administration for these borrowers? Some hear what they want to hear, but the fact is, as I interpret the recommendations, it is to have a program where funds would be available for borrowing at about what you would pay if you were out competing in the market and you had a good, sound borrower as a company.

Mr. HUNTER. Precisely.

Senator COCHRAN. A company that is in serious financial trouble, of course, or has a bad-looking balance sheet is not going to be able to get that kind of interest rate.

Mr. HUNTER. I think it is interesting to note that for the first 15 years of this program the interest rate was about 2 percent on almost all the loans that were made by REA. The cost of Treasury borrowing was about 1.75 percent at that time.

In other words, at that time, the benefit the borrowers received was the availability of funds, not a subsidized interest rate.

This is what we are proposing today: To make the money available without continuing to subsidize interest rates.

RURAL ACCESS TO ELECTRICAL AND TELEPHONE SERVICE

Senator COCHRAN. What percentage, if you know, of rural Americans do not have access to electrical service today?

Mr. HUNTER. Our statistics show that 98.8 percent of rural America has central electric service.

Senator COCHRAN. What about telephone service?

Mr. HUNTER. About 96.5 percent, I believe.

SUBMITTED QUESTIONS

Senator COCHRAN. I don't have any other questions. Let me say again how much I appreciate your cooperation with the subcommittee, your attendance at the hearing at our invitation, and your response to the questions which have been posed by the members of the committee.

Senator Harkin was not able to stay and submit his questions, and he will be submitting some questions for the record which I know you will be able to answer. There may be other Senators, also, who will do that. We hope you will be able to respond in a timely way for the record.

[The following questions were not asked at the hearing but were submitted for response for the record:]

Questions Submitted by Senator Cochran

USER FEE

Question: If a loan is approved, but advances are not paid until some time later (possibly never), is the full 5 percent user fee still applied?

Answer: Yes, the 5 percent user fee is a one time fee paid at the time the loan is approved.

REIMBURSEMENT FOR LOSSES

Question: Please list the amounts of interest income and interest expense for the revolving fund for each year since the fund's inception.

Answer: The amounts of interest income and interest expense for the revolving fund, since the fund's inception, are as follows:

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

Fiscal Year	Interest Income	Interest Expense 1/
May 11-June 30, 1973	$ 17,871,759.77	$ -0-
1974	140,654,774.32	-0-
1975	167,422,147.67	-0-
1976	197,270,427.36	6,273,358.82
TQ	54,637,810.61	5,140,141.85
1977	231,923,498.05	29,626,958.50
1978	261,050,945.40	36,892,035.79
1979	295,747,992.21	79,110,517.18
1980	336,255,797.09	144,151,258.99
1981	376,942,369.56	228,409,011.64
1982	422,048,984.22	316,524,573.37
1983	455,957,619.49	367,906,584.37
1984	479,070,614.20	395,563,754.85
1985	512,730,720.65	408,876,989.53

1/ Does not include imputed interest of:

May 11-June 30, 1973	$ 32,266,815.50
1974	235,550,600.68
1975	260,912,168.68
1976	268,599,457.68
TQ	67,701,781.56
1977	279,295,242.14
1978	307,163,625.12
1979	307,163,625.12
1980	307,163,625.12
1981	307,163,625.12
1982	307,163,625.12
1983	307,163,625.12
1984	307,163,625.12
1985	307,163,625.12

FFB TRANSACTIONS

Question: Why did the program, project, and activity report concerning the March 1 sequestration not reflect the effects of Federal Financing Bank transactions which are attributed to REA programs? Were there any effects? If so, what effects?

Answer: REA guarantees loans made by the Federal Financing Bank and other lenders. In FY 1986, 4.3 percent or $41,925,000 of REA loan guarantees were impacted by sequestration. These reductions are reflected in the program, project and activity report. We do not believe this reduction will have any adverse effects on the loan guarantee program.

RURAL TELEPHONE BANK

Question: In the first quarter of fiscal year 1986, the interest rate charged on RTB loans was 9.0 percent. What was it for fiscal year 1985?

Answer: The Rural Telephone Bank rate for fiscal year 1985 was 9.5 percent in the first two quarters and 9.0 percent in the last two quarters.

Question: What would have been the interest rate in fiscal year 1985 and the first quarter of fiscal year 1986 if RTB had not received the $30 million capitalization in those two years?

Answer: The interest rates in fiscal year 1985 would have been 9.5 percent for the entire fiscal year. The $30 million capitalization was not available until the third quarter and the interest rate was then reduced from 9.5 percent to 9.0 percent. The interest rate for the first quarter of fiscal year 1986 would have been the same, 9.0 percent, because the $30 million capitalization was not available at that time.

Question: Would the interest rate for the first or second quarter of fiscal year 1986 have been different if the $30 million capitalization had not been proposed for rescission?

Answer: The interest rate for the first or second quarter of fiscal year 1986 could have been 8.5 percent had the $30 million capitalization not been proposed for rescission.

Question: Last year, only $168 million was obligated for RTB loans, although a floor of $185 million was set by Congress and signed into law by the President. Why was the full amount not obligated?

Answer: The full amount of $185 million was not obligated because a number of completed loan applications did not meet the statutory requirements of the Rural Telephone Bank.

Question: How much do you anticipate will be obligated this year?

Answer: The amount of completed loan applications has decreased substantially in the last few years. In fiscal year 1986, the RTB loan program should be between $135 and the appropriated level (less Gramm/Rudman) of $177 million.

RURAL COMMUNICATION DEVELOPMENT FUND

Question: The explanatory notes indicate that the budget does not propose to fund the RCDF since sufficient funding is available in the private sector. Where in the budget is this proposed? Does it require legislation?

Answer: The REA FY 1987 budget does not propose any direct or guaranteed loans for the Rural Communication Development Fund. Legislation is not required.

Question: What evidence do you have to support your statement concerning private sector funding?

Answer: In 1981, it was determined that sufficient capital was available from private investors, and that the activity could be more appropriately financed by the private sector.

SALARIES AND EXPENSES

Question: Please explain the reasoning behind your proposal to increase the limitation for employment under 5 U.S.C. 3109.

Answer: The increased employment limitation under 5 U.S.C. 3109 restores the amount which had been historically authorized by Congress. Last year a rescission proposal was submitted with the budget which reflected a $47,000 reduction for consulting services pursuant to the Deficit Reduction Act of 1984. The rescission was not approved and the funds became available, but the language was not changed. We are now proposing the limitation be raised to the previous level.

REA BORROWERS

Question: The Rural Electrification Act required REA to encourage its borrowers to strengthen themselves financially to the point where they can obtain private financing. In the past few years, REA has chosen to measure a borrower's financial strength by using a calculation of the borrower's level of "general funds." There have not been any regulations approved to implement this policy, yet it has been followed. Last year, you asked this committee to remove a restriction on REA which would allow you to make this policy even more stringent. (We, instead, prohibited REA from using any general funds policy.)

Last year, when you appeared before this subcommittee, you were asked how this policy would affect REA borrowers. Your reply: "There would be some temporary impact on borrowers as they adjust their operations to accommodate the new policy. We estimate that within 6 months to a year, the typical borrower will be in conformance and will be participating in the REA insured loan program as before." This response sounds like you are encouraging borrowers to dilute their financial strength in order to comply with REA financing requirements. Do you feel that this policy will accomplish the goal of "promoting" REA borrowers to private sector financing?

Answer: During 1985 a proposed policy was drafted and shared with some of the rural electric borrowers and others for discussion. It was this proposed policy that I discussed with this Committee last year. The policy was never implemented.

Two measures of financial strength are equity and cash liquidity for operations. In terms of equity, the draft policy would have required more of the equity to be in physical electric utility plant rather than in financial investments. We do not believe that the policy would have diluted a borrower's cash position in a manner that its financial strength would have been adversely impacted and should still be attractive to private sector financiers.

Question: Why had this policy been implemented without published regulations?

Answer: The general funds policy (REA Bulletin 1-7) was published in the Federal Register on September 28, 1971. The 8 percent general funds recommended level was in effect at that time. On September 27, 1977, a draft rule was proposed to redefine general funds to include investments in borrower's associated organizations. This change was adopted on December 6, 1977. The change was noted in the Federal Register dated May 16, 1978 in accordance with publications practices at that time. Following are copies of the three Federal Register notices. As evidenced by the Federal Register notices the 8 percent general funds policy was published as a regulation.

FEDERAL REGISTER NOTICES

[From the Federal Register, Tuesday, Sept. 28, 1971]

REA bulletin number and date of last issuance	*Description*
9-1:300-1; June 1969	Guidelines for REA participation with borrowers and their associations in community development activities.
20-1:321-1; May 1954	The requirements of REA on the selection of a trustee where deeds of trust secure loans.
20-5:320-2; August 1969	Policy and procedure on the repayment of loan principal and interest extended under section 12 of the Rural Electrification Act.
20-7:320-10; June 1957	The requirements and procedure of REA with respect to interest and principal payments on REA loans under sections 4 and 201 of the Rural Electrification Act.
20-9:320-12; December 1969	Policy and procedure for the computation of interest on REA loans and loan account statements sent to borrowers.
20-10:320-8; October 1964	The policy and procedure of REA regarding notes and basis date agreements pertaining to section 4 and section 201 loans.
20-11:320-17; April 1962	Policy and procedure with respect to the Government's mortgage lien on motor vehicles owned by borrowers.
20-15:320-15; July 1970	The policy and procedure of REA concerning equal employment opportunity in construction financed by REA loans.
20-19:320-19; September 1970	The policy and procedure of REA to assure nondiscrimination among beneficiaries of REA programs.
20-21:320-21; June 1971	Policy and procedure concerning the implementation of the National Environmental Policy Act as it relates to the REA program.
40-1:340-2; March 1969	Requirements for borrowers' payments of REA loan funds to their architects, engineers, contractors, and suppliers.
40-2:340-5; August 1962	Insurance requirements of REA for borrowers' contractors, engineers, and architects, including bond requirements for borrowers' contractors.
43-6:344-3; July 1955	Requirements with respect to the "Buy American" provision of the Rural Electrification Act.
44-2:345-1; July 1967	REA specifications on wood poles, stubs, and anchor logs and for preservative treatment of these materials to be purchased by REA electric and telephone borrowers.
44-3:345-4; August 1958	REA specifications on wood crossarms, construction lumber, and pole keys and for preservative treatment of these materials to be purchased by REA electric and telephone borrowers.
44-4:345-9; November 1970	REA standards and procedures for the inspection of wood poles, stubs, and anchor logs, wood crossarms, construction lumber and pole keys and the preservatives and preservative treatment to be used in REA-financed construction.
44-5:345-2; November 1970	Inspection agencies authorized by REA for inspection of timber products and of their preservative treatment concerned with installation in REA borrowers' electric or telephone systems.
34-7:345-3; April 1971	REA procedure for establishing standards, standard specifications, drawings, materials and equipment for use in the electric and telephone programs.
81-4:381-6; August 1962	Requirements for payments to contractors for materials delivered but which cannot be incorporated into the electric or telephone projects for an extended period (60 days or more).
81-7:381-11; November 1958	Procedures for handling changes or corrections in contract construction where the cost is to be borne by the REA borrower.

REA bulletin number and date of last issuance	*Description*
11-8:381-13; June 1959	Procedures for the use of bidders on REA-financed construction in submitting their qualifications.
16-5:387-2; July 1968	Requirements and procedure concerning the use of contract Form 257 in the construction of headquarters facilities of electric and telephone borrowers.
00-1:400-2; April 1960	The requirements of REA for the selection of an attorney by an REA borrower.
100-5:400-3; June 1962	The policy of REA concerning agreements for the operation and management of electric and telephone systems owned by REA borrowers.
102-1:402-3; March 1964	REA policy and recommendations on electric and telephone cooperative borrowers' capital credits and related consumer benefits.
103-9:403-4; June 1960	Procedure for the purchase and redemption by borrowers of 2 percent Treasury Bonds—REA Series.
107-1:407-1; January 1970	Policy and recommendations of REA concerning the purchase and use of data processing equipment by REA borrowers.
109-2:409-3; May 1964	REA policy with respect to labor relations activities of borrowers.
114-2:414-1; April 1964	The policy of REA with respect to minimum insurance and fidelity coverage for REA borrowers.
168-7:447-3; July 1963	The policy and recommendations of REA borrowers' safety programs and their implementation.
160-6:460-2; April 1971	The policy of REA concerning the selection of Depositories for Funds of borrowers.
165-1:465-2; November 1963	REA policy and requirements regarding the audit of accounts and records of REA borrowers and the selection of independent Certified Public Accountants to perform such audits.
RURAL ELECTRIFICATION PROGRAM BULLETINS	
1-5; May 1965	Sets forth REA policy and procedure for the preparation and submission by electric borrowers of annual estimates of their loan requirements.
1-7; August 1969	The policy and recommendations of REA with respect to the general funds of electric borrowers as to appropriate levels in relationship to REA approval of loans and loan fund advances.
9-3; February 1962	REA policy and guidance to borrowers concerning protection of the territorial integrity of their service areas.
10-2; February 1971	REA policy and requirements for loans under section 4 of the Rural Electrification Act.
20-3; July 1958	REA procedure for electric borrowers in obtaining adequate rights of way and submission of title evidence.
20-6; May 1969	REA policy on loans for electric generation and transmission facilities.
10-8; July 1963	Requirements and procedure concerning the purchase of real estate by electric borrowers financed with REA loan funds or borrowers' general funds.
20-14; February 1971	The policy of REA concerning supplemental financing for loans considered under section 4 of the Rural Electrification Act.
20-20; January 1971	Policy and procedure concerning REA deferment of principal repayments for borrowers investing in supplemental lending institutions.
11-2; July 1965	The policy of REA as it relates to financing service entrance equipment in the electric program.
14-1; March 1969	Policy and procedure on REA loans to electric borrowers under section 5 of the Rural Electrification Act.

[From the Federal Register, Tuesday, Sept. 27, 1977]

Rural Electrification Administration

[7 CFR Part 1701]

ELECTRIC PROGRAM

Proposed Revision of REA Bulletin on General Funds

AGENCY: Rural Electrification Administration.

ACTION: Advance notice of proposed rule.

SUMMARY: The Rural Electrification Administration (REA) proposes to revise Bulletin 1-7, General Funds, and REA Form 740a, Review of General Funds (Electric). The circumstances that create the need for this action arise from changes in REA and supplemental lenders' loan programs and services. The intended effect of this action is to redefine general funds to include investments in borrowers' associated organizations, with the exception of certain such investments that have been deemed excludable from general funds by the Administrator, and to liberalize the application of the policy with respect to other items that may be excludable from general funds.

DATE: Public comments must be received by REA on or before October 24, 1977.

ADDRESS: Interested persons may submit written data, views, or comments to the Director, Electric Borrowers' Management Division, Room 3346, South Building, U.S. Department of Agriculture, Washington, D.C. 20250. All written submissions made pursuant to this notice will be made available for public inspection in the Office of the Director, Electric Borrowers' Management Division, during regular business hours.

FOR FURTHER INFORMATION CONTACT:

Mr. Charles R. Weaver, Director, Electric Borrowers' Management Division, Rural Electrification Administration, Room 3346, South Building, U.S. Department of Agriculture, Washington, D.C. 20250, telephone 202-447-5900.

SUPPLEMENTARY INFORMATION: Pursuant to the Rural Electrification Act, as amended (7 U.S.C. 901 et seq.), REA proposes to revise REA Bulletin 1-7 issued August 19, 1969, and to revise REA Form 740a issued June 1974. The effect of the proposed revisions would be to:

(1) Reinstate REA borrowers' investments in associated organizations as general fund items, with the exception of certain excludable such investments.

(2) Allow the exclusion of short-term loans from general funds for loan fund advance purposes, where the advance is to be used to repay the short-term loan.

(3) Change REA's advance payment recommendation from an amount equal to two years' debt service payments to a level consistent with the borrower's cash management planning.

A copy of the proposed revision of REA Bulletin 1-7 and REA Form 740a may be secured in person or by written request from the Office of the Director, Electric Borrowers' Management Division.

NOTE.—REA has determined that this document does not involve a major action requiring preparation of an Economic Impact Statement under Executive Order 11821, as amended by Executive Order 11949, and OMB Circular A-107.

Dated: September 19, 1977.

JOSEPH VELLONE,
Acting Administrator.

[FR Doc.77-27907 Filed 9-26-77;8:45 am]

[From the Federal Register, Tuesday, May 16, 1978]

CHAPTER XVII—RURAL ELECTRIFICATION ADMINISTRATION, DEPARTMENT OF AGRICULTURE

PART 1701—PUBLIC INFORMATION

Appendix A—REA Bulletins

AGENCY: Rural Electrification Administration.

ACTION: Final rule.

SUMMARY: This includes revisions since November 25, 1977, to the listing and summary descriptions of REA bulletins and supplements thereto that provide the program policies and requirements of the Rural Electrification Administration. The revision reflects both new and revised REA bulletins issued after publication in the FEDERAL REGISTER under proposed rulemaking procedures to secure public comment and participation.

EFFECTIVE DATES: REA bulletins become effective on date of final issuance unless otherwise set forth therein (see Appendix A below for each REA bulletin and its issuance date.)

FOR FURTHER INFORMATION CONTACT:

Mr. Blaine D. Stockton, Jr., Acting Director, Management Services Division, Rural Electrification Administration, Room 4024-S, U.S. Department of Agriculture, Washington, D.C. 20250, telephone number 202-447-4512.

SUPPLEMENTARY INFORMATION: REA regulations are issued pursuant to the Rural Electrification Act, as amended (7 U.S.C. 901 et seq.). No public comments were received on any of the REA policy and rulemaking bulletins issued during this period.

The following listings of new and revised bulletins and summary descriptions of bulletins add to or replace existing listings in Appendix A to Part 1701 (40 FR 16074).

APPENDIX A—REA BULLETINS

REA Bulletin No., date of last issuance and description of content

Joint Rural Electrification and Telephone Program Bulletins

20-9:320-12; October 1976 (Supplement). A supplement dated January 27, 1978, providing REA borrowers with updated procedures relating to the transmission of a funds transfer message to the U.S. Treasury.

44-2:345-1; November 1976 (Supplement). A supplement dated November 18, 1977, defining wood decay and providing REA borrowers with a basis for rejecting wood products showing decay.

103-9:403-4; October 1977 (Replacing June 1960). Procedure for the purchase and redemption by REA borrowers of 2 Percent Treasury Bonds—REA Series and 5 Percent Treasury Certificates of Indebtedness—REA Series.

RURAL ELECTRIFICATION PROGRAM BULLETINS

1-7; December 1977 (Replacing August 1969). The policy and recommendations of REA concerning appropriate levels of general funds for electric borrowers in relationship to REA approval of loans and loan fund advances.

43-5; July 1977 (Supplements). Supplements 1 and 2 issued October 1977 and January 1978, respectively. The supplements amend the basic list of materials acceptable for use on systems of REA electric borrowers.

108-1; October 1977 (Replacing October 1974). The requirements of REA on the preparation and submission of operating reports by electric distribution borrowers.

108-2; November 1977 (Replacing January 1971). The requirements of REA on the preparation and submission of operating reports by power supply borrowers and distribution borrowers with generating facilities.

181-1; March 1978 (Replacing January 1972). Uniform System of Accounts prescribed by REA for use by electric borrowers.

181-3; February 1972 (Supplement). A supplement dated October 20, 1977, to serve as a guideline to provide uniform accounting procedures for purchase rebates.

183-1; October 1977 (Replacing November 1969). The policy and procedure of REA pertaining to depreciation rates of electric plant.

RURAL TELEPHONE PROGRAM BULLETINS

320-23; December 1977 (New). The policy and requirements of REA relating to post-loan procedures for telephone borrowers with substantial and continuing construction programs.

344-2; January 1977 (Supplements). Supplements 2 and 3 issued September 1977 and January 1978, respectively. The supplements amend the basic list of materials acceptable for use on telephone systems of REA borrowers.

345-6; January 1978 (Replacing June 1973). Specifications of REA for splicing plastic-jacketed cables used on telephone systems of REA borrowers.

345-13; April 1974 (Supplement). A supplement dated February 10, 1978, permitting the use of continuous uniformity thickness monitoring equipment to take advantage of new technology for monitoring and controlling the uniformity of jacket thickness.

345-14; July 1971 (Supplement). A supplement dated February 10, 1978, permitting the use of continuous uniformity thickness monitoring equipment to take advantage of new technology for monitoring and controlling the uniformity of jacket thickness.

345-36; November 1966 (Supplement). A supplement dated February 10, 1978, permitting additional methods of packaging parallel drop wire.

345-59; March 1971 (Supplement). A supplement dated March 2, 1978, relating to improved long-term electrical stability for cables subjected to adverse temperature and humidity conditions.

345-61; March 1971 (Supplement). A supplement dated March 2, 1978, relating to improved long-term electrical stability for cables subjected to adverse weather and humidity conditions.

345-67; November 1976 (Supplement). A supplement dated February 10, 1978, permitting the use of continuous uniformity thickness monitoring equipment to take advantage of new technology for monitoring and controlling the uniformity of jacket thickness.

345-69; January 1978 (Replacing April 1973). Specifications of REA for two-wire voice frequency repeater equipment on borrowers' telephone systems.

345-70; August 1974 (Supplement). A supplement dated February 10, 1978, permitting the use of continuous uniformity thickness monitoring equipment to take advantage of new technology for monitoring and controlling the uniformity of jacket thickness.

345-77; January 1978 (New). A new REA specification for serving area interface housings.

345-78; February 1978 (New). A new REA specification for carbon arresters and protectors.

384-3; November 1977 (Replacing February 1976). The procedure of REA concerning central office equipment contracts and specifications for telephone borrowers.

402-1; December 1962 (Supplement). A supplement dated February 13, 1978, eliminating certain mortgage restrictions concerning dividend and other distributions by telephone borrowers.

402-2; November 1960 (Supplement). A supplement dated October 13, 1977, reducing to one the number of certified copies of pertinent excerpts of minutes of board or membership meetings required by REA from its borrowers.

403-3; October 1959 (Supplement). A supplement dated September 20, 1977, reducing to one the number of certified copies of pertinent excerpts of minutes of board or membership meetings required by REA from its borrowers.

415-1; August 1960 (Supplement). A supplement dated October 25, 1977, providing for the inclusion of the Rural Telephone Bank under the provisions of this bulletin.

Dated: May 10, 1978.

DAVID A. HAMIL,
Administrator.

[FR Doc. 78-13282 Filed 5-15-78; 8:45 am]

INSTRUCTIONS TO PREPARE REA FORM 740A

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

March 27, 1979

SUBJECT: Instructions to Prepare
REA Form 740a, Review of General Funds

TO: Electric Borrowers

A change in REA Form 7, Financial and Statistical Report, that directs distribution borrowers to separate Investments in Associated Organizations - Other, with respect to the general fund classification of such investments, makes a change in the "Instructions for Completing REA Form 740a" necessary.

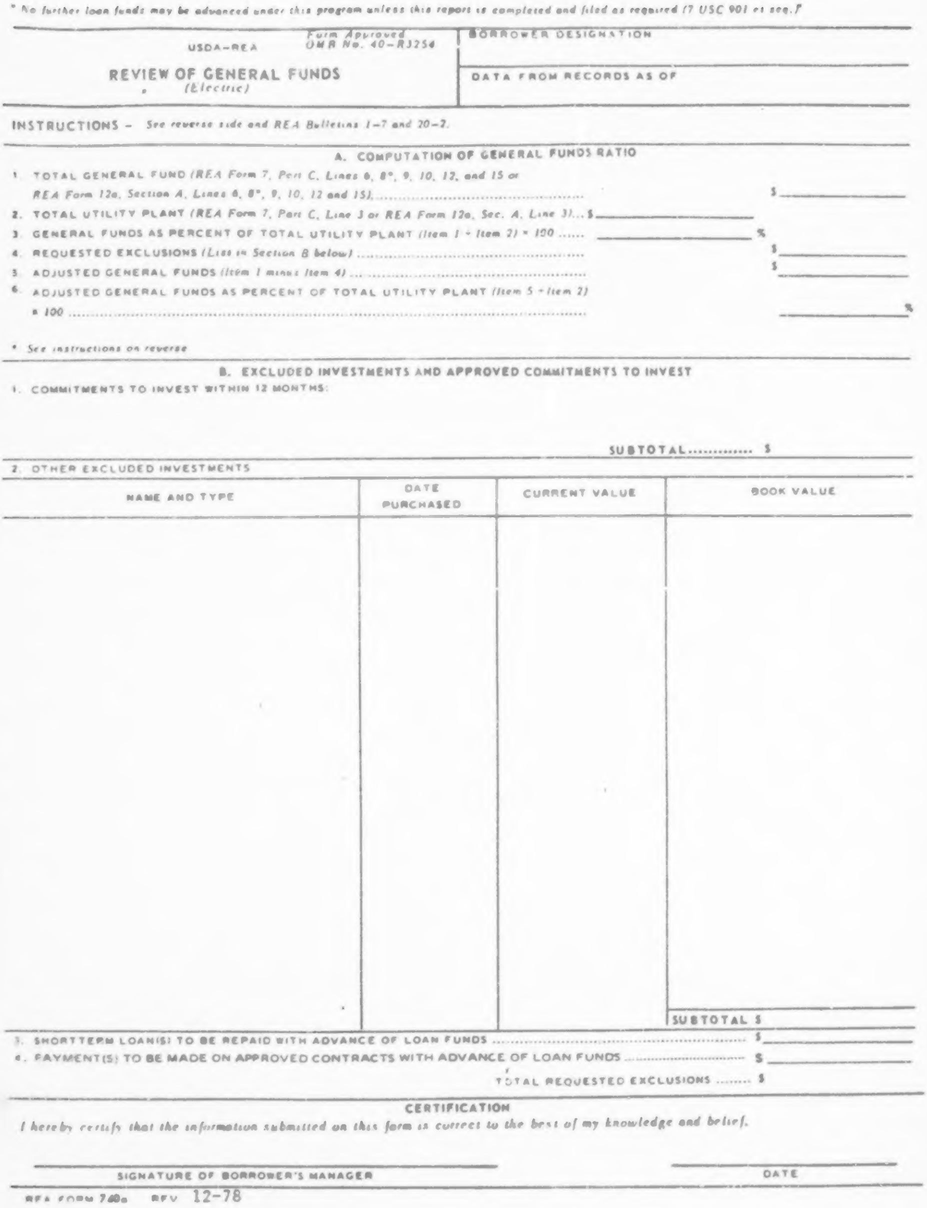
Accordingly, the attached REA Form 740a contains the appropriate instructions for both distribution and power-type borrowers with respect to treatment of Investments in Associated Organizations - Other. The next printing of Form 740a will incorporate these instructions. Until a new stock of Form 740a is available, please apply these instructions to the use of the existing stock.

Also an item has been added to Section B of Form 740a to cover payments on approval contracts. An advance of loan funds for this purpose will not affect the general fund level. The general policy is that advances for this purpose will be reduced by the amount adjusted general funds exceed 8 percent of total utility plant.

Robert W. Feragen
Administrator

Attachment:
REA Form 740a

REA Form 740a



** No further loan funds may be advanced under this program unless this report is completed and filed as required (7 USC 901 et seq.)*

USDA–REA *Form Approved OMB No. 40–R3254*

REVIEW OF GENERAL FUNDS
(Electric)

BORROWER DESIGNATION

DATA FROM RECORDS AS OF

INSTRUCTIONS – *See reverse side and REA Bulletins 1–7 and 20–2.*

A. COMPUTATION OF GENERAL FUNDS RATIO

1. TOTAL GENERAL FUND *(REA Form 7, Part C, Lines 6, 8*, 9, 10, 12, and 15 or REA Form 12a, Section A, Lines 6, 8*, 9, 10, 12 and 15)* .... $ ______
2. TOTAL UTILITY PLANT *(REA Form 7, Part C, Line 3 or REA Form 12a, Sec. A, Line 3)*... $ ______
3. GENERAL FUNDS AS PERCENT OF TOTAL UTILITY PLANT *(Item 1 ÷ Item 2) × 100* ...... ______ %
4. REQUESTED EXCLUSIONS *(List in Section B below)* .... $ ______
5. ADJUSTED GENERAL FUNDS *(Item 1 minus Item 4)* .... $ ______
6. ADJUSTED GENERAL FUNDS AS PERCENT OF TOTAL UTILITY PLANT *(Item 5 ÷ Item 2) × 100* .... ______ %

** See instructions on reverse*

B. EXCLUDED INVESTMENTS AND APPROVED COMMITMENTS TO INVEST

1. COMMITMENTS TO INVEST WITHIN 12 MONTHS:

SUBTOTAL.............. $

2. OTHER EXCLUDED INVESTMENTS

NAME AND TYPE	DATE PURCHASED	CURRENT VALUE	BOOK VALUE
			SUBTOTAL $

3. SHORTTERM LOAN(S) TO BE REPAID WITH ADVANCE OF LOAN FUNDS .... $ ______
4. PAYMENT(S) TO BE MADE ON APPROVED CONTRACTS WITH ADVANCE OF LOAN FUNDS .... $ ______

TOTAL REQUESTED EXCLUSIONS .... $

CERTIFICATION

I hereby certify that the information submitted on this form is correct to the best of my knowledge and belief.

SIGNATURE OF BORROWER'S MANAGER

DATE

REA FORM 740a REV 12-78

Instructions for Completing
REA Form 740a

1. Submit an original copy only to support, as required, loan applications and requisitions for advance of funds. Attach a copy of the most recent REA Form 7 or 12a from which data was obtained, if not previously submitted to REA.

2. Distribution Borrowers
   Include in line 1, Total General Fund, only those Investments in Associated Organizations - Other that appear on line 8, Section C, REA Form 7. Investments that appear on line 8.1, Section C, REA Form 7 should not be included. (See REA Bulletin 108-1.)

   Power-Type Borrowers
   Include in the total for line 1, Total General Fund, amounts from line 8, Section A, REA Form 12a, that have not been specifically excluded from the general fund computation by the Administrator or his representative. For example, CFC-CTC's purchased more than 2 years in advance of their due date and CFC commercial paper and other non-CFC instruments should be included.

3. List in Section B:

   a. The amount of CTC's to be purchased under the Initial Subscription Agreement within the next 12 months, or any other such approved commitment, if not actually purchased.

   b. Investments made prior to March 13, 1969, in rural area development projects, when such investments were made in accordance with REA policy then in effect.

   c. Investments made prior to August 19, 1969, which cannot be liquidated without loss of principal, when such investments were made in accordance with REA policy then in effect.

   d. Any other investment included on lines 6, 9, 10, 12 and 15 of Sections C and A of REA Forms 7 and 12a, respectively, or any other amount that has been specifically excluded from the general fund computation by the Administrator or his representative.

   e. Short-term loans that are to be repaid from the proceeds of the requested advance. Short-term loans are not excludable in determining adjusted general funds for loan purposes.

   f. Payments on approved contracts that are to be made from proceeds of the requested advance. Such payments are not excludable in determining adjusted general funds for loan purposes.

For each item listed for exclusion, provide sufficient identification of the item; for instance, the date of issue and interest rate should be shown for marketable U.S. securities. Do not list any items from line 8 of Sections C and A of REA Forms 7 and 12a, respectively.

Revision of REA Bulletin 1-7

Enclosed is revised REA Bulletin 1-7, "General Funds." The bulletin was revised to:

1. Emphasize the need for comprehensive planning in the management of all short-term assets and liabilities, including general funds cash and investments (Section III-D).
2. Formalize the exclusion of certain investments in associated organizations from general funds (Section I-C-1).
3. Indicate that REA approval to make certain nonexcludable general fund investments in borrowers' own organizations, described in the bulletin as "certain paper, note or bonds," need not be obtained (Section III-C).
4. Change the advance payments recommendation from a level equal to two times maximum annual debt service requirements to a level consistent with comprehensive planning for the management of general funds cash and investments (Section III-B-3).

December 6, 1977
Supersedes 8/19/69

REA BULLETIN 1-7

SUBJECT: General Funds

I. General:

A. The purposes of this bulletin are to set forth Rural Electrification Administration policy and recommendations with respect to general funds of REA electric borrowers and to establish a recommended level of working capital and reserve funds.

B. It is the responsibility of each borrower to determine the proper amount and use of its general funds. REA is concerned that each borrower maintains its general funds at a level that meets its needs and that general funds in excess of such needs will, on a continuing basis, be applied to uses which conserve loan funds and provide maximum consumer benefits. REA is also concerned that investments and expenditures of general funds not impair the Government's security, the ability of the borrower to repay its notes as scheduled, or the accomplishment of the objectives of the Rural Electrification Act.

C. As used in this bulletin:

1. "General Funds" includes all the cash and investments which are not held in trust or similar accounts specified by contractual agreements, other than certain equity investments of a long-term, contractual nature in associated organizations as may be designated by the Administrator from time to time.
2. "Loan Funds" means the proceeds from loans made or guaranteed under the Rural Electrification Act.
3. "Total Utility Plant" for distribution borrowers shall be the total plant as shown on REA Form 7, Financial and Statistical Report, Section C, Line 3, Total Utility Plant.

4. "Total Utility Plant" for power supply borrowers shall be the total plant as shown on REA Form 12a, Operating Report - Financial, Section A, Line 3, Total Utility Plant.

II. Policy: When reviewing the amount of an application for an insured or guaranteed loan, REA will take into consideration the amount of the applicant's general funds on hand and the amount of general funds that can reasonably be expected to be generated in the construction period covered by the loan. The amount of general funds on hand will be considered in reviewing requisitions for loan fund advances. Borrowers with general funds in excess of the appropriate level set forth in paragraph III-A, hereof, are expected to use such excess amounts for purposes set forth in Section III-B below.

III. Recommendations:

A. Appropriate Level: Each borrower should have sufficient working capital and reserve funds to meet promptly its operating costs, taxes, debt service payments, routine construction and replacement costs, and for contingencies. Usually, the general funds needed by electric borrowers for these purposes should not exceed 8 percent of total utility plant, or $100,000, whichever is greater.

B. Remaining General Funds: General funds over the appropriate level should be used for the following purposes:

1. Plant Additions: It is appropriate for borrowers to use remaining general funds for plant additions in accordance with REA Bulletin 103-2, Use and Approval of General Funds for Additions to Plant, and for each borrower to plan to have funds available for this purpose consistent with its resources and needs.

2. Retirement of Patronage Capital: Retirement of patronage capital for cooperative borrowers should be consistent with bylaw provisions, mortgage provisions, requirements of regulatory bodies, comprehensive cash management planning and planning for an appropriate capital structure.

3. Advance Payments: The establishment, maintenance and use of a cushion of credit should be consistent with comprehensive planning for the management of general funds cash and investments. Therefore, the level of advance payments should be determined by such planning.

C. Deposits and Investments: Borrowers should give primary consideration to safety and liquidity in the management of general funds. In the interest of safety, checking accounts shall be kept in banks which carry FDIC insurance.

Investments should be made only in securities of the United States Government, in securities or passbook accounts of institutions insured or guaranteed by the United States Government or an instrumentality thereof, or in certain uninsured paper, notes and bonds as may be designated from time to time by the Administrator.

General fund cash should be deposited in institutions selected as set forth in REA policy Bulletin 180-6, Selection of Depositories for Funds of REA Borrowers.

An investment is considered liquid when it can be readily converted into cash without loss of principal.

D. Management of General Funds: General funds management, including managing the securities portfolio with respect to maturities, marketability and return and the use of dependable short-term credit, makes a significant contribution to a borrower's operating stability and viability. The management of receivables, with particular reference to prompt collection, short "float" time and minimization of overdue accounts and losses can have significant impact on cash availability. Inventory management with respect to control of levels on hand and reorder lot sizing and timing also has significant effect on cash requirements. Therefore borrowers are urged to use comprehensive planning with respect to all short-term assets and liabilities in the management of general funds cash and investments. See REA Bulletin 105-4, Financial Management.

IV. Application of Policy: All borrowers should periodically review the level and composition of their general fund cash and investments for conformance with REA recommendations. Borrowers are expected to manage their general funds consistent with the recommendations of this bulletin. In connection with the making of loans and advances, REA may exclude certain general fund investments, commitments to invest and other amounts in calculating a borrower's general fund level, and will take into consideration unusual circumstances which render the recommended level insufficient to meet the borrower's needs. Borrowers should submit REA Form 740a, "General Fund Analysis," in support of a new application for financing, where exclusion(s) must be requested to adjust the general fund level to an appropriate level or where reimbursements are requested in the application, and to support all requisitions for advance of loan funds.

Joseph Vellone

Actin-
Administrator

Attachment:
REA Form 740a

Index
GENERAL FUNDS:
  REA Recommendations
LOANS:
  General Funds Consideration

ADVANCE OF LOAN FUNDS:
  Level as Related to Loan Fund Advances
SELECTION OF DEPOSITORIES:
  Account and Certificate Insurance

APPROVED LOANS

Question: Please provide the statistics showing the aggregate amounts of loans approved over the past 5 years and the amount of advanced funds on such loans.

Answer: The following table shows the aggregate amounts of loans approved and the amounts advanced in the past five years.

Aggregate Net Direct Loans Approved and Advanced
($ in millions)

Fiscal Year	REA Electric Loans	REA Telephone Loans	Total Loans
Aggregated Net Loans			
as of 9/30/1980	$14,668	$3,793	$18,461
1981	15,517	4,033	19,550
1982	16,367	4,272	20,639
1983	17,211	4,517	21,728
1984	18,053	4,738	22,791
1985	18,607	4,938	23,545
Aggregated Advances			
as of 9/30/1980	$13,301	$3,074	$16,375
1981	14,224	3,355	17,579
1982	15,033	3,594	18,627
1983	15,707	3,776	19,483
1984	16,299	3,963	20,262
1985	16,960	4,099	21,059

DENSITY

Question: Last week, I received a report from you regarding the making of REA loans for non-rural areas. That report states that 80 percent of REA electric loans go to non-rural areas. The report further states that the definition of service to a "rural area" is that which provides service to 5 or fewer new consumers per mile. How was that definition chosen?

Answer: Density definitions were determined by using the national REA-electric distribution borrower system-wide average as a base. In recent years the national average system density for REA's electric borrowers has fluctuated between five and six consumers per mile. As a result, REA determined that a project with a consumer density of five or fewer would fall into the category of rural because it would be equal to or less than the national average. Medium density projects are those projects with consumer densities of 5.1 to 10 consumers per mile. These projects have densities slightly higher to two-times higher than the national average. High density projects are those projects with more than 10 consumers per mile. These project densities are more than double the national system average.

"CLASSIFICATION BY OBJECTS"—"OTHER SERVICES"

Question: On the table "Classification by Objects," the line entitled "Other Services" shows a decrease of almost $1 million — a 41 percent cut. Please detail this line item, including an explanation of any items which are not self-explanatory.

Answer: A detailed listing of object class 2500 with an explanation of items which changed significantly follows:

Object Class 2500 - Other Services
($ in 000)

	FY 1986 Estimate	FY 1987 Estimate	Change
Special Contracting Program 1/	$750	$150	$-600
Agriculture-Washington Area Telecommunication System (AWAT) 2/	444	0	-444
Washington Computer Center	307	320	+ 13
Training	141	125	- 16
NFC Services	133	140	+ 7
Other Non-Travel Expenses	125	130	+ 5
ADP Maintenance	118	141	+ 23
Office Equipment Repairs	62	68	+ 6
Telephone Operations and Maintenance	50	51	+ 1
Building Security	50	53	+ 3
GSA Workorders	36	39	+ 3
All Other	199	205	+ 6
Total	$2,415	$1,422	$-993

1/ The estimates reflect the anticipated level of contracts requiring short-term services for expertise not found in REA.

2/ FY 1986 includes a one-time assessment for REA's share of upgrading the Agriculture telecommunication system in the Washington area.

ELECTRIC LOAN GUARANTEES

Question: The budget explanatory notes, in justifying the decrease proposed for electric loan guarantees, says, "Where needed, REA borrowers can increase the portion of their total financing from other funding mechanisms such as pollution control bonds and leveraged leasing." Please expound.

Answer: REA generation and transmission borrowers have been very successful in obtaining financing other than REA loan guarantees, particularly through pollution control bonds and leveraged leasing. REA borrowers have raised approximately $4 billion through pollution control financing arrangements and $3 billion through leveraged leasing. This financing has resulted in early payment and rescission of guaranteed loans and has displaced the need for loan guarantee commitments. Borrowers have also realized interest savings as a result of their early repayments.

Question: The loan authorization language which we have traditionally included in the appropriations bill for guaranteed REA loans sets a floor and a ceiling on contingent liability. The language proposed for fiscal year 1987 sets a ceiling on total loan principal, "any part of which is to be guaranteed."

Does this mean, for example, that the full amount of a $50 million loan would be charged against that ceiling, even if only a portion of that is to be guaranteed? If so, why the change in policy?

Answer: The guaranteed loan authorization language proposed for fiscal year 1987 sets a ceiling on contingent liability for REA guaranteed loan principal. If a portion of the $50 million rural electric loan used in your example is to be guaranteed, only that portion will be charged against the REA guaranteed loan ceiling.

Question: In implementing the annual fee to cover defaults on guaranteed loans, will this be assessed on new guarantees only?

Answer: The annual fee to cover losses would be assessed on current generation and transmission borrowers.

Question: Will this be assessed on anticipated losses or losses after-the-fact?

Answer: The assessment will be on losses in the previous year; i.e., losses after the fact, and will cover those losses only.

Question: Will they change each year or will they be fixed?

Answer: The annual fee would change each year only as a result of losses in the previous year. If no losses occurred in a year, then no new fee would be assessed.

USER FEE

Question: The budget proposed to implement a 5-percent "user fee" for REA direct loans. Is this a loan origination fee which will be required to be paid at the time of loan application, or can this be financed over the life of the loan?

Answer: The 5 percent fee would be paid prior to final loan approval. It is probable that the borrowers would be allowed to include it in their loan applications, thereby amortizing it over the life of the loans.

Question: Won't this increase the effective interest rate charged to borrowers?

Answer: The one-time, 5 percent fee would result in a very minimal increase in the overall effective interest rate.

Question: Do private sector lenders charge that much for a loan to an REA-type borrower?

Answer: The National Rural Utilities Cooperative Finance Corporation (CFC), the borrower-owned supplemental lender, requires borrowers to purchase Capital Term Certificates (CTC) based upon a percent of their CFC loan amount. The amount of CTC purchases required ranges between 2 and 7 percent of the loan amount depending upon the total activity the borrower has with CFC. The Bank for Cooperatives require borrowers to purchase bank stock as investments in the Bank. These investments are related as a percentage to actual loan dollars used calculated on an average daily loan balance basis per annum.

SEQUESTRATION ORDER

Question: In reviewing the sequester order issued by the President on March 1, I noticed that the reimbursement for losses of the REA revolving fund ($100 million account) was not sequestered. Could you explain why?

Answer: The reimbursement for losses of $100 million to the REA revolving fund was exempted from sequestration by the Congressional Budget Office and Office of Management and Budget.

SERVICE TO RURAL AREAS

Question: The law prohibits making REA loans which will serve "any city, village, or borough having a population in excess of 1,500 inhabitants." Why does that not prevent the problems to which the report refers?

Answer: REA operates under a procedure commonly referred to as "once rural, always rural." Under this procedure REA will make loans in perpetuity to a borrower as long as the first loan that borrower received was at a time when the borrower did not serve any city, village or borough having a population in excess of 1,500 inhabitants. Under this procedure it is irrelevant whether the borrower's service area has, over the years, become non-rural.

QUESTIONS SUBMITTED BY SENATOR ABDNOR

DENSITY STUDY

Question: Mr Hunter, I have received a copy of a study prepared by your office. It is entitled "Non-Rural Projects Receive Bulk of REA's 5 Percent Electric Loans". Can you clarify a few points on that study?

You state that "eighty percent of the $535 million in loan funds financed high density projects." Mr. Hunter, my understanding is that a typical REA loan includes funds both to connect new consumers and for "system improvements," which include heavying up existing lines and so forth. In the past I have been told that some 40-50 percent of a typical REA loan is for these necessary system improvements. If that is the case why are these not included in your study. It seems like your arithmetic might be substantially wrong, Mr. Hunter.

Answer: The purpose of the study was to review the density of projects being financed by REA. In most cases it is the need for new consumer hook-ups that prompts a borrower to apply for a loan from REA.

Question: Your study looks at density in isolation from any other factors. In fact, I might add that it does not even consider density but really only looks at incremental density--that is the density from new projects only and not the density of the total system. You would propose to restrict eligibility for REA loans based on density, but do not have any evidence that these so-called higher density systems have lower rates than their neighboring utilities or better financial ratios.

Answer: Statistics comparing REA high-density borrowers with their neighboring IOU's show that there is a small spread between their respective retail rates. For example, median costs per 1,000 kWh are $71.78 for REA borrowers and $68.44 for IOU's. In addition, the IOU's may have a higher density which impacts their rate structure and may result in lower charges to the consumer.

TELEPHONE BORROWERS

Question: REA's testimony states that total operating revenues for telephone borrowers increased from $2.0 billion to $2.9 billion (42 percent) from 1981 to 1984. Yet the independent telephone companies as a whole experienced an increase in total operating revenues of 347 percent from 1980-1984 (figures obtained from the FCC). Isn't it misleading of REA to suggest that the rural telcos are doing well when in fact their position relative to that of other independent telcos has eroded over the past 5 years? Please provide an explanation for the relatively slow growth in total operating revenues of REA borrowers and a list of actions that REA is taking or plans to take to help small telcos improve their financial condition.

Answer: We have contacted the Industry Analysis Division of the Federal Communications Commission and were advised that they have no information to confirm that independent telephone companies as a whole experienced an increase in total operating revenues of 347 percent from 1980-1984. Reports published in the industry trade press show that total operating revenues of independent telephone companies increased from $12 billion in 1981 to $16 billion in 1984, an increase of 33 percent. REA financed companies have indeed been keeping pace with the industry as a whole. REA is continuing its longstanding practice of providing managerial and technical assistance to its borrowers through its field and Washington staff with emphasis on those borrowers most needing these services.

Question: REA testimony cites a 16 percent growth in telephone borrowers' net worth from 1981 to 1984. However, REA borrowers' net worth, at 29 percent, is still far short of 42-44 percent necessary to obtain commercial financing and short of the 42 percent debt-to-equity ratio for the Bell Operating Companies. What is REA doing to help borrowers' improve their net worth?

Answer: In 1984, there were 226 of our telephone borrowers which had achieved a net worth of 40 percent or more. We believe that many lenders will consider a net worth of 35 percent as an adequate criteria in considering financing for utility industries. There are 327 telephone borrowers with a net worth of more than 35 percent. In recent discussions with officials of the Bank for Cooperatives, they indicated that lenders are becoming more interested in analyzing a loan applicant's projected cash flow rather than rely on a specific level of an applicant's net worth. On this basis, we believe many of our borrowers would be excellent candidates for private sector financing.

Question: Administrator Hunter spoke at length about how well the telephone borrowers have done over the past five years, before the impact of deregulation has been felt. What prospective studies has REA done of the effects of regulatory actions such as the change to a flat 25 percent interstate NTS allocation, the access charge decision and state regulators' movement away from traditional settlements and division of revenues?

Answer: REA has not done any prospective studies recently on the impact of regulatory actions regarding toll revenue settlements. This is because most states have not finalized their intra-state toll revenue settlement plans. We believe it would be more effective and accurate for each borrower utilizing its own consulting firm, to analyze the impact of how the changes from traditional toll settlement and division of revenue would affect each individual system.

Question: Do the statistics cited for telephone borrowers in 1981 and 1984 on page 2 of Mr. Hunter's testimony refer to the same borrowers? Specifically, did the borrower group in 1984 remain identical to the group in 1981 or does it include more borrowers?

Answer: Of the 946 borrowers reporting in 1984, there were 53 borrowers reporting that were not borrowers in 1981. Four borrowers were late reporting in 1984, and one was late in 1981. These five borrowers are not included in the composite figures for those respective years. There also was one borrower that was required to report in 1981, but no longer in 1984. Furthermore, three borrowers that reported in 1981 had paid their loans in full before year-end 1984.

Question: Does it include any companies that have merged or been acquired by others? Does it include any first-time REA borrowers?

Answer: When borrowers merge with or acquire other borrowers, the composite figures of all borrowers are not affected. (There were 45 borrowers involved in such actions between 1981 and 1984.) However, a number of non-borrower companies (or parts thereof) have been acquired by or merged with borrowers since 1981. According to the Area Operations Branches there have been 25 such actions since 1981. (Only 19 of these involve borrowers which reported in both 1981 and 1984, thus affecting the composite figures.) Most of these 25 actions involve the acquisition of one or two exchanges, which would have little effect on REA composite figures. At least six, however, were actions by holding companies merging their borrower and non-borrower companies within particular states. This would have a greater effect on the composites than the acquisition of a few exchanges. In those situations where REA has financed only a minor part of a company's facilities (less than 20 percent), that borrower is generally excluded from REA composite figures. In 1981, ten borrowers were excluded, and in 1984, 12 were excluded. The two additions were the result of mergers involving holding companies merging their borrower and non-borrower holdings.

Question: Are the statistics unduely influenced by a few large borrowers?

Answer: While the excluded borrowers are usually large, those large companies that are financed primarily by REA are kept in the composite figures.

Question: Are the statistics adjusted for inflation?

Answer: None of the composite figures are adjusted for inflation.

DENSITY

Question: Mr. Hunter, your information states that REA electric distribution loans are in the late 1970's were made to so-called "high density" projects (15 customers/mile). During the cable television debates, we learned that CATV companies ordinarily wouldn't consider it economically feasible to bring cable service to an area with fewer than 30 customers per mile, and even at that level, the project was marginally feasible at that. What makes you think 15 customers per mile is so high?

Answer: The number of customers per mile of what may be considered economically feasible for a Cable TV company may not hold true for a rural electric system. We are talking about two very different products: electricity which is considered a necessity and cable television which is a luxury item. Fifteen consumers per mile is three times the national average for rural electric systems. If one accepts industry characterizations that the sparse 5 to 6 consumers per mile average density is indicative of the rural nature of REA systems, then three times that level should be considered high density.

Further it should be pointed out that the new consumers being served by projects of this type are not rural residents but are rather suburban commuters who have freely chosen to move their families and businesses into a particular area.

Question: According to REA's own 1984 statistical report, the average density of telephone borrowers is only 5.5 customers per mile of line. Do you consider this high density? Don't you think it would have been more balanced to include that figure in your testimony?

Answer: The average density of telephone borrowers is 5.5 subscribers per mile of line and it is not considered high density. It was not included in order to keep the testimony concise.

Question: How does this density compare with that of the Bell Operating Companies? Do you expect us to accept this "15 customer per mile" figure without any comparisons?

Answer: To our knowledge, the Bell Operating Companies do not publish statistics on customers per route mile of line. A figure generally used by the industry is that the Bell Operating Companies have a density in excess of 40 customers per route mile of line.

RURAL TELEPHONE BANK

Question: You have stated repeatedly that REA is restrained by law from targeting REA loans. No means test was put into Act because the point of the REA program was to pass on the benefit of the loan program to rural customers. Still, when Congress established the Rural Telephone Bank, it specified that higher density telephone systems that could afford to could be required to take RTB loans in concurrence with or instead of the insured loans. And over half of the telephone borrowers have borrowed from the RTB! Why don't you mention that in your testimony?

Answer: We are able to direct telephone borrowers who are financially able to secure loans from the RTB instead of insured loans from RETRF. However, REA is not able to target electric borrowers in the same manner.

GENERAL FUNDS

Question: Is REA reviewing its requirements in light of FCC regulatory changes that might inflict conflicting requirements or unintended burdens on borrowers? For example, deregulation of CPE artificially raised the general funds levels of some borrowers. What is REA doing to prevent such effects?

Answer: REA is constantly reviewing FCC regulatory changes.

The deregulation of CPE may raise the level of those items included in the calculation of general funds but REA is not considering borrowers' general fund levels when considering loan applications or loan advances this year.

SUBSCRIBER DROP-OFF

Question: Has REA done any studies of subscriber drop-off among borrowers due to the faltering farm economy?

Answer: REA has not conducted any studies of subscriber drop-off among borrowers.

QUESTIONS SUBMITTED BY SENATOR KASTEN

BORROWERS IN WISCONSIN

Question: Mr. Hunter, on the subject of rural electric and telephone co-ops serving non-rural areas, could you tell us how many of these there are in a state like Wisconsin?

Answer: There are 29 electric and 86 telephone borrowers in Wisconsin. The average system density for the electric borrowers is 8.8 consumers per mile of line and for the telephone systems it is just under 7 subscribers per mile of line.

In terms of consumers served in Wisconsin, the largest electric distribution system is the Adams-Marquette Electric Cooperative. It serves about 14,000 consumers and over the last 5 years has received $3.1 million in loans to add 1,980 new consumers to its system. The density of the two projects financed since 1980 averaged 14.4 consumers per mile. It appears that some of this growth can be attributed to the ski areas located within the borrower's service area.

Wisconsin rural electric systems have borrowed a total of $202.8 million from REA to provide service to about 167,000 consumers. In the last 5 years REA has approved 42 loans valued at $55 million to 25 of the state's rural electric systems. These loans helped add 15,092 new consumers to the systems.

Question: How does the percentage of non-rural residents served by rural electric and telephone co-ops in Wisconsin compare with that in some other states?

Answer: By comparison there are a number of electric systems around the country who have added more consumers and borrowed nearly as much as all Wisconsin systems combined. For instance, a borrower serving the suburbs of Fort Myers, Florida, received $42.5 million from REA since 1980 and added 32,990 new consumers. Another Florida borrower serving the suburbs of Tampa received almost $38 million and added over 41,000 new consumers. Similar situations exist among borrowers serving the suburbs of Atlanta, Georgia, Dallas/Ft. Worth, Texas, and even Washington, D.C.

Following is a recent study showing the 50 fastest growing REA electric distribution systems in the country. Without exception, they serve suburban areas of major cities or fast-growing vacation areas.

REA'S TOP 50:
FASTEST GROWING COOPS ARE IN SUNBELT, SUBURBS & RESORTS

The depression in rural America hasn't affected some so-called rural electric cooperatives one bit. In fact, a study by the Department of Agriculture's Rural Electrification Administration shows that fifty of the agency's borrowers have grown at least five times faster than the national average for rural utilities during the first five years of this decade.

Without exception these fifty coops serve rapidly expanding areas of the Sunbelt, suburbs of major metropolitan areas or vacation resorts. Their consumer base has grown by at least 5,000 new hook-ups since 1980. Some have grown by six, seven or eight times that amount.

Just over 1 million new consumers were added to the rolls of rural electric systems since 1980, bringing the national total to slightly more than 10 million consumers. The fifty coops in this study represent five percent of all REA borrowers. Yet, they account for two-thirds of the consumer growth with over 675,000 new hook-ups. They also account for approximately one third of the $3.5 billion in loans approved by REA since 1980.

Despite their non-rural character these fifty utilities enjoy the same subsidy from REA that truly rural coops receive. For every 5% interest loan that a cooperative in rural North Dakota or Kansas receives there is a utility serving the suburbs of Atlanta or Dallas that also gets a 5% loan.

The projects financed by these fifty utilities over the last five years had an average consumer density of 19 per mile. Truly rural projects have densities of 5 or fewer consumers per mile.

From the exclusive coastal resorts of Hilton Head, South Carolina and Sanibel Island, Florida to the ski resorts of Vail and Aspen, Colorado; from the prosperous suburbs of Atlanta, Dallas and New Orleans in the south to those of Minneapolis/St. Paul and Washington, D.C., the electric utilities covered in this study are profiting from boom times and subsidized loans...all in the name of "rural electrification."

ALABAMA

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Baldwin County EMC, Summerdale, Al.	1980	$2,371,000	2,100	15.0 per mile
20,737	1982	2,255,000	3,400	15.5 per mile
Mobile suburbs				
		$4,626,000	5,500	15.3 avg. per mile

ALASKA

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Matanuska Electric Assn., Palmer, Ak.	1982	$14,987,000	2,489	11 per mile
23,118	1982	1,134,000*	0	0
City of Palmer				
	1983	1,240,000	47	96 per mile
	1985	18,000,000	8,000	29 per mile
		$35,361,000	10,536	45 avg. per mile
Golden Valley Electric Assn., Fairbanks, Ak.	1982	$13,821,000	2,400	19 per mile
22,674	1982	1,789,000*	0	0
City of Fairbanks	1985	21,600,000	3,661	24 per mile
		$37,210,000	6,061	22 avg. per mile

*headquarters building

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Chugach Electric Assn., Anchorage, Ak.	1981	$41,135,000	loan guarantee for cost overruns on G&T	
60,716	1982	9,400,000	loan guarantee for generating facility	
City of Anchorage	1983	37,707,000	loan guarantee for generating facility	
	1983	27,500,000	6,616	47 per mile
		$88,242,000 loan guarantees		
		$27,500,000 direct	6,616	47 avg. per mile

ARKANSAS

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Carroll Electric Cooperative Corp., Berryville, Ar.	1982	$6,569,000	3,200	13 per mile
34,327	1985	6,900,000	4,000	19 per mile
		$13,469,000	7,200	16 per mile avg.
Fayetteville suburbs, vacation & retirement home development in northern Arkansas & southern Missouri				

COLORADO

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Intermountain Rural Electric Assn., Sedalia, Co.	1982	$21,419,000	7,440	6 per mile
38,421				
Denver's southern suburbs				
Holy Cross Electric Assn., Glenwood Springs, Co.	1981	$ 5,329,000	3,000	17 per mile
25,805	1983	8,413,000	4,984	24 per mile
		$13,742,000	7,984	20.5 per mi. avg.
Aspen & Vail ski areas				

DELAWARE

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Delaware Electric Cooperative, Inc., Greenwood, De.	1982	$3,875,000	2,260	12 per mile
33,732	1985	3,100,000	2,900	19 per mile
		$6,975,000	5,160	15.5 per mi. avg.
southern Delaware, beach and resort communities				

FLORIDA

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Clay Electric Coop, Inc. Keystone Heights, Fl.	1981	$5,810,000	6,520	18 per mile
79,459	1984	9,500,000	7,570	18 per mile
		$15,310,000	14,090	18 per mile avg.
Suburbs of Ocala, Gainesville, Jacksonville, St. Augustine				
Sumter Electric Coop, Inc. Sumterville, Fl.	1980	$5,940,000	5,005	15 per mile
47,820	1982	3,174,000	2,778	19 per mile
Suburbs of Orlando, tourism-related growth from Disneyworld	1983	7,660,000	5,308	16 per mile
	1985	10,900,000	5,698	19 per mile
		$27,674,000	18,789	17 per mile avg.
Lee County Electric Coop, Inc., North Ft. Myers, Fl.	1980	$10,708,000	11,900	25 per mile
85,999	1982	10,384,000	10,090	24 per mile

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Ft. Myers suburbs,	1982	3,945,000*	0	0
Gulf Coast tourism and retirement related growth	1982	3,050,000**	0	0
	1984	14,400,000	11,000	19 per mile
		$42,487,000	32,990	22 per mile avg.
Withlacoochee River Electric Coop, Inc., Dade City, Fl.	1980	$ 9,503,000	12,402	18 per mile
87,061	1982	10,962,000	14,810	20 per mile
Suburbs of Tampa/St.	1984	17,500,000	14,199	24 per mile
Petersburg, tourism & retirement related growth		$37,965,000	41,411	21 per mile avg.

*headquarters building
**transmission line, substation improvements

GEORGIA

North Georgia EMC, Dalton, GA.	1981	$2,943,000	4,250	10 per mile
55,561	1984	1,900,000	2,690	10 per mile
		$4,843,000	6940	10 per mile avg.
City of Dalton, suburbs of Chatanooga, Tenn.				

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Walton EMC, Monroe, GA.	1981	$7,312,000	6,100	18 per mile
41,815	1985	4,800,000	6,250	22 per mile
		$12,112,000	12,350	20 per mile avg.
Suburbs of Atlanta, Athens, GA.				
Douglas County EMC, Douglasville, GA.	1982	$3,123,000	2,180	21 per mile
35,667	1985	4,400,000	4,200	19 per mile
		$7,523,000	6,380	20 per mile avg.
Suburbs of Atlanta, Marietta, GA.				
Snapping Shoals EMC, Covington, GA.	1981	$2,543,000	2,100	18 per mile
25,384	1982	1,872,000	1,820	20 per mile
Suburbs of Atlanta, GA.	1986	5,200,000	4,541	18 per mile
		$9,615,000	8,461	19 per mile avg.
Sawnee EMC, Cumming, GA.	1980	$4,788,000	2,160	9 per mile
28,729	1982	1,495,000	1,350	10 per mile
Suburbs of Atlanta, Gainesville, GA.	1983	5,425,000	2,620	10 per mile
	1984	6,400,000	4,890	18 per mile
		$18,108,000	11,020	12 per mile avg.

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Jackson EMC, Jefferson, GA.	1980	$2,236,000	2,565	18 per mile
55,421 Suburbs of Atlanta, Gainesville, GA.	1981	5,266,000	6,280	18 per mile
	1982	3,936,000	3,448	19 per mile
	1984	10,100,000	9,800	18 per mile
	1985	21,700,000	13,250	17 per mile
		$43,238,000	35,343	18 per mile avg.
Cobb EMC, Marietta, GA.	1980	$11,479,000	7,520	20 per mile
60,839	1982	10,222,000	6,200	16 per mile
Suburbs of Atlanta, Marietta, GA.	1984	11,900,000	11,000	20 per mile
		$33,501,000	24,720	19 per mile avg.
Coweta-Fayette EMC, Newnan, GA.	1980	$3,569,000	4,400	19 per mile
21,181	1982	3,758,000	2,860	16 per mile
Suburbs of Atlanta, GA.	1984	4,100,000	3,584	21 per mile
		$11,427,000	10,844	19 per mile avg.

KENTUCKY

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Warren Rural Electric Cooperative Corp., Bowling Green, KY.	1980	$5,284,000	2,800	13 per mile
36,791	1984	2,800,000	2,400	26 per mile
		$8,084,000	5,200	19.5 per mile avg.
Suburbs of Bowling Green				

LOUISIANA

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Southwest Louisiana EMC, Lafayette, LA.	1981	$18,195,000	5,400	16 per mile
75,953	1983	20,713,000	11,000	22 per mile
		$38,908,000	16,400	19 per mile avg.
Suburbs of Lafayette, Gulf coast areas				
Washington-St. Tammany Electric Cooperative, Inc., Franklinton, LA.	1981	$ 4,471,000	3,442	10 per mile
25,380	1981	1,047,000*	0	0
Suburbs of New Orleans,	1983	5,934,000	3,200	21 per mile
Bogalusa, Hammond, Picayune	1985	8,400,000	2,896	10 per mile
		$19,852,000	9,538	14 per mile avg.

*transmission line

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Dixie EMC, Baton Rouge, LA.	1981	$11,386,000	7,000	25 per mile
49,065	1981	2,100,000*	0	0
Suburbs of Baton Rouge	1982	14,301,000	6,250	18 per mile
	1985	12,700,000	6,970	20 per mile
		$40,487,000	20,220	21 per mile avg.
*transmission line				
	MARYLAND			
Southern Maryland Electric Cooperative, Inc. Hughesville, MD	1980	$18,597,000	6,593	16 per mile
69,741	1986	13,300,000	7,895	20 per mile
		$31,897,000	14,488	18 per mile avg.
Suburbs of Washington, D.C.				
	MINNESOTA			
Anoka Electric Cooperative Anoka, MINN.	1981	$5,216,000	5,580	14 per mile
51,705	1985	5,100,000	4,800	13 per mile
		$10,316,000	10,380	13.5 per mile avg.
Suburbs of Minneapolis/ St. Paul				

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Dakota Electric Assn. Farmington, MINN.	1980	$2,926,000	3,980	31 per mile
36,753	1982	5,642,000	4,060	34 per mile
Suburbs of Minneapolis/ St. Paul	1985	4,500,000 $13,068,000	3,900 11,940	58 per mile 41 per mile avg.
		MISSISSIPPI		
Coast Electric Power Assn. Bay St. Louis, MS.	1980	$4,990,000	5,700	31 per mile
34,179	1983	5,909,000 $10,899,000	3,900 9,600	18 per mile 24.5 per mile avg.
Suburbs of Bay St. Louis, Biloxi, Gulf Port, Gulf coast areas				
Southern Pine Electric Power Assn. Taylorsville, MS.	1982	$6,301,000	6,110	12 per mile
40,061				
Serves area between Jackson & Hattiesburg				

NEW HAMPSHIRE

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
New Hampshire Electric Cooperative, Inc. Plymouth, NH	1981	$75,250,000*	0	0
49,654	1981	500,000**	0	0
Suburbs of Portsmith, Concord, Plymouth	1981	4,799,000	1,595	18 per mile
	1982	3,584,000	1,595	18 per mile
	1983	7,900,000	2,600	18 per mile
	1983	111,000,000*	0	0
		$186,250,000*		
		16,283,000	5,790	18 per mile avg.

*loan guarantees for Seabrook Nuclear project

**direct loan for Seabrook Nuclear project

NORTH CAROLINA

Blue Ridge EMC Lenoir, NC	1980	$2,800,000	3,400	18 per mile
40,939	1982	3,500,000	3,250	18 per mile
Blue Ridge Mountains ski and vacation resorts	1984	11,400,000	3,600	20 per mile
		$17,700,000	10,250	19 per mile avg.

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Jones-Onslow EMC Jacksonville, NC	1985	$4,800,000	5,140	37 per mile
31,290				
Suburbs of Jacksonville, Camp Lejeune				
	OKLAHOMA			
Oklahoma Electric Cooperative, Inc. Norman, Oklahoma	1980	$4,550,000	3,282	12 per mile
25,422	1983	3,813,000	3,000	15 per mile
Suburbs of Norman, Oklahoma City	1984	7,400,000	5,700	16 per mile
	1986	5,300,000	4,040	18 per mile
		$21,068,000	16,022	15 per mile avg.
East Central Oklahoma Electric Cooperative Okmulgee, Oklahoma	1980	$3,452,000	2,600	12 per mile
22,177	1982	8,455,000	3,514	14 per mile
Suburbs of Muskogee, Okmulgee	1983	8,400,000	3,960	16 per mile
		$20,307,000	10,074	14 per mile avg.

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Verdigris Valley Electric Cooperative Collinsville, Oklahoma	1980	$5,911,000	2,000	9 per mile
20,298	1983	3,887,000	2,800	15 per mile
Suburbs of Tulsa, Bartlesville	1985	4,700,000	2,600	18 per mile
		$14,498,000	7,400	14 per mile avg.
		SOUTH CAROLINA		
Berkeley Electric Cooperative, Inc. Moncks Corner, SC	1980	$4,430,000	5,200	18 per mile
37,625	1981	5,304,000	4,800	21 per mile
Suburbs of Charleston	1983	6,601,000	4,800	19 per mile
	1984	9,600,000	5,900	20 per mile
		$25,935,000	20,700	19.5 per mile avg.
Blue Ridge Electric Cooperative, Inc. Pickens, SC	1981	$4,434,000	2,960	16 per mile
32,013	1982	2,450,000	3,070	17 per mile
Suburbs of Greenville, Spartanburg	1984	6,400,000	2,968	15 per mile
		$13,284,000	8,998	16 per mile avg.

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Palmetto Electric Cooperative, Inc. Hilton Head, SC	1981	$5,436,000	5,600	35 per mile
25,334	1983	4,900,000	7,900	31 per mile
Hilton Head resort, suburbs of Savannah, GA	1985	4,500,000 $14,836,000	5,740 19,240	25 per mile 30 per mile avg.
Horry Electric Cooperative, Conway, SC	1981	$2,147,000	1,850	17 per mile
19,826	1984	1,500,000	1,800	17 per mile
Myrtle Beach resort	1985	8,300,000 $11,947,000	6,400 10,050	30 per mile 21 per mile avg.

TENNESSEE

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Volunteer Electric Cooperative, Inc. Decatur, TN	1982	$6,195,000	7,200	15 per mile
59,047				
Suburbs of Chatanooga				

TEXAS

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Magic Valley Electric Cooperative Mercedes, TX	1981	$8,645,000	3,630	18 per mile
27,447	1981	4,184,000*	0	0
Vicinity of South Padre Island, Harlingen, Brownsville, McAllen	1984	10,100,000	5,800	19 per mile
		$22,930,000	9,430	18.5 per mile avg.
Denton County Electric Cooperative Denton, TX	1981	$2,482,000	1,600	16 per mile
16,327	1983	3,471,000	1,708	11 per mile
Suburbs of Dallas	1985	8,100,000	4,420	25 per mile
		$14,053,000	7,728	17 per mile avg.
Farmers Electric Cooperative Greenville, TX	1980	$2,660,000	1,800	14 per mile
18,806	1982	3,413,000	2,400	18 per mile
Suburbs of Dallas	1985	5,900,000	3,800	18 per mile
		$11,973,000	8,000	16.6 per mile avg.

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Pedernales Electric Cooperative Johnson City, TX	1980	$11,662,000	7,600	14 per mile
65,408	1982	19,742,000	6,800	11 per mile
Suburbs of Austin, San Antonio	1984	15,800,000	7,300	18 per mile
		$47,204,000	21,700	14 per mile avg.
Johnson County Electric Cooperative Cleburne, TX	1981	$2,857,000	2,400	15 per mile
20,733	1982	4,149,000	2,810	16 per mile
Suburbs of Dallas/ Ft. Worth	1982	347,000*	0	0
	1983	5,168,000	2,914	14 per mile
*headquarters building	1985	8,400,000	5,800	20 per mile
		$20,921,000	13,924	16 per mile avg.
Bluebonnet Electric Cooperative Giddings, TX	1980	$6,301,000	3,400	11 per mile
39,571	1982	17,238,000	6,500	13 per mile
Suburbs of Austin, Houston, San Antonio	1985	16,400,000	6,500	12 per mile
		$39,939,000	16,400	12 per mile avg.

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Tri-County Electric Cooperative Azle, TX	1981	$3,255,000	3,150	17 per mile
23,252	1983	4,133,000	2,850	18 per mile
Suburbs of Ft. Worth	1984	4,000,000	4,050	17 per mile
		$11,383,000	10,050	17 per mile avg.
Sam Houston Electric Cooperative Livingston, TX	1981	$7,350,000	6,800	17 per mile
45,565	1982	11,270,000	6,700	19 per mile
Suburbs of Houston, Beaumont	1985	19,800,000	6,300	19 per mile
		$38,420,000	19,800	18 per mile avg.
		VIRGINIA		
Northern Virginia Electric Cooperative Manassas, VA	1981	$1,476,000*	500	9 per mile
42,724	1982	4,928,000*	3,000	23 per mile
Suburbs of Washington, D.C.	1984	8,338,000	3,900	21 per mile
		$14,742,000	7,400	17 per mile avg.

*loans were to another coop that merged with Northern Virginia and whose debts were assumed by Northern Virginia

PUERTO RICO

BORROWER NAME, TOWN, 1984 CONSUMER TOTAL, NON-RURAL FACTOR IN SERVICE AREA	YEAR OF LOAN	LOAN AMOUNT	NEW CONSUMERS SERVED	DENSITY OF PROJECT
Puerto Rico Electric Power Authority, San Juan, PR	1980	$24,328,000	24,867	50 per mile
462,530	1983	15,629,000	10,713	39 per mile
Entire island served by borrower	1983	11,069,000	11,420	42 per mile
	1984	45,800,000	14,766	27 per mile
		$96,826,000	61,766	39.5 per mile avg.

QUESTIONS SUBMITTED BY SENATOR SPECTER

OTHER FUNDING SOURCES

Question: Your 1987 budget proposal will reduce insured electric loans by $275 million. Your explanation of this decrease is that REA borrowers can borrow from others sources. Have you made any study of what other sources of funding are available to REA borrowers, how much more they will have to pay for this money, and what the impact of higher cost funds will be on rural rate payers?

Answer: Most rural electric systems are eligible to borrow from REA and other non-REA financing corporations. Some rural electric systems chose not to borrow from REA. As for REA borrowers, the National Rural Utilities Cooperative Finance Corporation, (CFC), has been making loans since FY 1971, and most REA borrowers have been getting 30 percent of their loan needs from CFC, concurrent with an REA loan for the other 70 percent. This is the borrowers' own organization capitalized entirely through them. Incidentally, this loan ratio has not changed since 1972. Cumulative loans to electric borrowers from CFC, both with a concurrent REA loan and without, total over $3.0 billion.

The Banks for Cooperatives (BC's) of the Farm Credit Administration have also been making loans to REA borrowers for several years. Cumulative loans total around $400 million not including loans made under the REA guarantee authority. In addition, the recent Farm Bill legislation provided authority to the BCs to lend to all REA borrowers regardless of whether or not they are cooperatives or what percentage of their consumers or subscribers are farmers. The legislation also allows BC's to make loans to entities that can be certified as being eligible for REA funding whether they have ever borrowed from REA or not. This greatly expands the borrowers' potential for financing. There are also individual banks willing to lend to the rural systems and there is a borrower organization in New Mexico which makes loans to its members.

The cost of moving from government financing to private markets' non-government rate is not significant. Interest expense represents between 4 and 5 percent of the borrower's total operating expenses. The added cost to the average residential electric consumer will be approximately 43 cents per month and that increase would only be necessary if the co-op decides to undertake a major new project. This cost could be even less if the economic recovery brought about by this Administration continuous to narrow the gap between the REA 5 percent interest rate and the interest rates available in the private market.

ELECTRIC LOAN GUARANTEES

Question: In 1985, $41.5 million in REA Electric Loan Guarantees were provided to Pennsylvania. What will be the impact of the 1987 budget submission on electric loan guarantees?

Answer: The FY 1987 proposed budget provides sufficient funds for projected guaranteed loan needs of Pennsylvania and other states. Electric use continues to run in the 1 to 3 percent growth per year; however, with the surplus generating capacity that presently exists, we do not see the need for major new electric generating or transmission facilities.

REORGANIZATION OF REA

Question: I understand that you have contacted Chairman Cochran about the proposed reorganization of REA's area offices from five to four. Can you provide assurances that there will be no curtailment in services and no loss of personnel from this reorganization?

Answer: We expect to maintain all services at the current level with four Area Offices, and we also believe the loan program will be operated more efficiently as a result of the reorganization. A key factor in making the change is the reduced volume of loan applications.

In our current five-area structure, we have too few employees spread over too broad an organization which results in too many supervisors. At present, workload is not evenly distributed by Area. By reducing the number of Areas, we can distribute the work more equitably.

I have made a commitment to the employees that there will be no RIF's or downgradings as a result of this reorganization. We believe attrition will enable us to meet our staffing needs and eliminate the need to take any adverse action during the reorganization process.

QUESTIONS SUBMITTED BY SENATOR BURDICK

LOAN APPLICATIONS

Question: Last year, the REA failed to meet the minimum loan levels set by Congress. This was, in large part, due to the restrictive implementation of the general funds policy. Do you anticipate any problems in meeting those minimum levels this year?

Answer: Whether REA meets the minimum loan levels set by the Committee is dependent upon the amount of applications yet to be received during the year. The action by Congress that prohibits REA from using general funds policy in accepting or approving loan applications has changed the pattern of loan receipts. With respect to the restrictive nature of REA's 8 percent general funds policy, the recent financial improvement of REA borrowers was responsible for the general funds policy coming into play rather than any changes implemented by the agency. This improved financial condition generated excess funds for the borrowers which thereby implementing the policy that had been in existence since 1969 to require borrowers to first use their own excess funds for construction costs before qualifying for new REA loans or advances. At this time we do not believe that an accurate projection can be made of loan applications to be received in fiscal year 1986. Through April 15, 1986, REA had approved $116 million of insured loans and had $206 million of such applications on hand. Applications that are complete and fully supported are being processed expeditiously. It is important to note also that even though the agency's overall staffing has been decreasing, the amount of time to process loans has actually been reduced.

ENGINEERING STANDARDS DIVISION

Question: In both a supplemental appropriations report and the regular appropriations report last year, you were directed to staff fully the engineering standards division. Yet, I understand that you still have not filled several positions. How many vacancies are there, how long have they been vacant, and when will you fill them?

Answer: Current staffing patterns show six engineering vacancies in our Telephone staff division. We have and are continuing to work to fill these positions. We have placed advertisements in trade journals, advertised through our vacancy announcement system, and requested certificates of eligibles from the Office of Personnel Management. A total of 48 applications were received as a result of our recruitment efforts, and Telephone Program engineering officials made offers of employment to two of the applicants. Both of these individuals declined REA's offer, citing a hesitancy to relocate to the Washington, D.C., area.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

INCREASED COSTS

Question: You are proposing very significant cuts in the loan programs, a raise in the loan interest rate, and the imposition of an annual fee on all REA guaranteed power supply borrowers. Isn't it true that these changes will certainly result in increased costs to consumers?

Answer: The proposals will result in a very modest increase to REA borrowers requesting new loans. An average distribution borrower's total interest expense is less than 5 percent of total operating costs. The substantial strengthening of REA borrowers' financial position, as a result, in part, of their improved economic conditions, has resulted in increased general funds which can be used by many borrowers to prevent excessive rate increases. Increases in operating costs may be absorbed by the borrowers' general funds and it may not be necessary to pass this cost on to the consumers.

Question: What specific cost increases will be experienced by producers and consumers in Arkansas if these changes are implemented?

Answer: We estimate that the typical (median) rural residential electric consumer in Arkansas could see an increase of around 6 cents per day.

REORGANIZATION

Question: I understand the number of REA area directors is to be reduced from 5 to 4, which will increase each director's workload by 20 percent. How will this affect the delivery of REA's programs and services?

Answer: We do not look upon this reorganization as an increase in each Area Director's workload but as an effective management tool to properly utilize personnel resources.

We do not anticipate the level of service will be affected by reducing the number of Area Directors in each program from five to four. When the five Areas were established many years ago, their staffs were approximately twice as large. Our borrowers needed substantially more REA guidance and direction. Our current staff level is adequate to handle the present REA Area Office workload. Our borrowers have matured and become more self reliant and the level of needed REA assistance has decreased. In addition, the number of loan applications submitted to REA has also decreased.

RATE INCREASES

Question: Many of the extremely rural areas of my state already have high unemployment and very depressed economies, and any rate increase would be a serious burden for the consumer. How do you propose to protect such areas from being forced to bear an inequitable share of the burden that would result from rate increases brought on by these policy changes?

Answer: The increases that we are proposing would not cause a serious burden for the typical consumer in Arkansas. These proposals are, in general, consistent with the current financial well-being of the rural electric and telephone systems and each borrower will share the increases in an equitable manner.

QUESTIONS SUBMITTED BY SENATOR HARKIN

REDUCED FUNDING LEVELS

Question: The REA proposed to reduce the rural electrification loans by $900 million to $600 million and the rural telephone loans by $315 million to $60 million for FY-87. This is a 65 percent reduction from the FY-86 loan level. Do you call this a 5-year orderly phase-out? What justification do you have for a 65 percent first year reduction?

Answer: In FY 1985 REA obligated $636.6 million of rural electrification loans and $224.6 million of rural telephone loans. We proposed $600 million rural electrification loans, $60 million rural telephone loans, a 23 percent reduction when compared with FY 1985 actual loan obligations. The reductions are based on anticipated borrower loan demand in FY 1987.

Question: Why does the REA reduce only 10 percent of the administrative expense to $26.36 million in FY-87? With a

65 percent reduction in the loan level, why does the REA need 90 percent of the FY-86 administration expenses?

Answer: The funds requested for REA administrative expenses reflect the level needed to process anticipated new loan applications as well as service existing outstanding loans. The agency currently has $15.7 billion of outstanding loans with an additional $2.8 billion of funds yet to be advanced on previously approved loans. The funds requested will allow the agency to maintain an adequate level of staffing to properly serve our borrowers.

SUBCOMMITTEE RECESS

Senator COCHRAN. If there is no other business to come before the hearing today, this concludes our hearing. The subcommittee will hold its next hearing Thursday, April 10, in room SD–138 at 9:30 a.m. At that time, we will be hearing from representatives of the Food and Nutrition Service and the Human Nutrition Information Service. Until that time, the subcommittee stands in recess.

[Whereupon, at 3:40 p.m., Tuesday, April 8, the subcommittee was recessed, to reconvene at 9:30 a.m., Thursday, April 10.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

THURSDAY, APRIL 10, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:30 a.m. in room SD–138, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, Kasten, Mattingly, Burdick, Harkin, and Bumpers.

DEPARTMENT OF AGRICULTURE

FOOD AND NUTRITION SERVICE

HUMAN NUTRITION INFORMATION SERVICE

STATEMENTS OF:

- **JOHN BODE, ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES, DEPARTMENT OF AGRICULTURE**
- **SUZANNE S. HARRIS, DEPUTY ASSISTANT SECRETARY, FOOD AND CONSUMER SERVICES, HUMAN NUTRITION INFORMATION SERVICE**
- **SONIA CROW, ASSOCIATE ADMINISTRATOR, FOOD AND NUTRITION SERVICE**

ACCOMPANIED BY:

- **BETTY PETERKIN, ACTING ADMINISTRATOR, HUMAN NUTRITION INFORMATION SERVICE**
- **GEORGE A. BRALEY, DEPUTY ADMINISTRATOR, SPECIAL NUTRITION PROGRAMS, FOOD AND NUTRITION SERVICE**
- **BARBARA O'NEIL, DIRECTOR, PROGRAM DEVELOPMENT DIVISION, FAMILY NUTRITION PROGRAMS, FOOD AND NUTRITION SERVICE**
- **ROBERT SHERMAN, DEPUTY DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS, DEPARTMENT OF AGRICULTURE**

OPENING REMARKS

Senator COCHRAN. The subcommittee will come to order.

Today, we are hearing from witnesses who will testify in support of the fiscal year 1987 budget requests for the Food and Nutrition Service and the Human Nutrition Information Service. These agencies come under the jurisdiction of John Bode, Assistant Secretary of Agriculture for Food and Consumer Services. The Food and Nutrition Service administers 12 major programs that provide food assistance. They are operated on a day-to-day basis primarily by State and local agencies.

The budget request for next year for the Food Stamp Program is about $12.3 billion, including the $825 million block grant for Puerto Rico. This estimate assumes, according to the budget, a reduced unemployment rate and minimal food price inflation. It also assumes the passage of new legislative proposals.

In the child nutrition area, legislation has again been proposed to eliminate all Federal support for meals served to children of families earning above 185 percent of the poverty level. The WIC Program—Women, Infants and Children food program—would be funded under this budget at about $1.6 billion, which would support a caseload of 3 million participants.

The Human Nutrition Information Service has a budget proposal of $6.9 million for the year. That service performs and sponsors research to improve professional knowledge and public understanding of food supplies and nutritional adequacy of diets.

Secretary Bode, welcome to the committee. We appreciate your being here. Please introduce those who are with you and proceed in any manner you wish. We do have a copy of your statement, but before you proceed, let me see if others had any opening comments or statements that they would like to make.

Senator Kasten.

Senator KASTEN. Thank you. I have no statement at this time.

Senator COCHRAN. Senator Bumpers.

Senator BUMPERS. Mr. Chairman, I may not be able to stay for this hearing, but I do want to say that in reviewing the testimony that is going to be presented here this morning, I do want to make this observation: I am not sure that I disagree as stringently as I first thought with some of the proposals on the funding for the Child Nutrition Program and the WIC Program. Those are the two that I am most concerned about here.

But I do want to say that we are proceeding in the School Lunch Program in a direction that I think has the potential for being disastrous for a lot of school districts. I am also concerned about the WIC Program, which probably serves one-third of the eligible people in this country, and which has one of the best benefit-cost ratios of all the nutrition programs. I think those programs that have the greatest benefit-cost ratio and the greatest ultimate payback are the ones that we ought to pay the closest attention to.

But in my State, for example, I am told by the School Food Service of the State Department of Education that there are 70 school districts out of about 400 that will have to seriously consider discontinuing their food service programs if assistance to students above 185 percent of poverty is ended. If that winds up to be the case, then the Food and Nutrition Service is going to have miscalculated, and we will not know what the full price of that is for some time down the road.

I have waxed many times in my life about the impatience of the American people. Sometimes it is a blessing, and sometimes it is a real pain. We have become so accustomed to fast food, 1-minute oatmeal, frozen dinners, and so on, that we just simply have a difficult time dealing with solutions which have a long-term payback.

One of the things I want to say in conclusion—and I am not going to delay this meeting this morning—is I share the President's dreams and visions of the future. I share his contempt and distaste for Qadhafi, but my disagreement with the President is simply on a question of priorities.

I just think that when you spend as much money as we are spending on defense right now, which is laudable, you should be sure you are really getting the kind of payback that you hope to get by embarking on this trillion and one and a half billion dollars' effort. If we go through a generation or two by cutting student loans and cutting food and nutrition services and allowing 35 million people not to be covered by any kind of health coverage, you see, it won't bother me, because the results of that won't really be felt by this Nation until 15, 20 years down the pike. My children are the ones who are going to suffer for our guessing wrong, or our insensitivity, or whatever may be the cause for doing some of the things we are doing.

Mr. Chairman, if I am not here, I do have two or three questions that I would like to submit for the record to Mr. Bode.

Senator COCHRAN. They certainly can be submitted, and I know the Secretary will ensure that they are answered in a timely fashion. We appreciate that.

We have copies of statements which will be included in their entirety in the record. Proceed in any way that you would like to summarize those comments for the committee.

STATEMENT OF JOHN BODE

Mr. BODE. Thank you, Mr. Chairman. We will summarize those statements very briefly in the interest of protecting the committee's time. Let me first introduce the good people who are accompanying me here today. Bob Sherman is the Department's Deputy Budget Officer; Betty Peterkin is Acting Administrator of the Human Nutrition Information Service; on my left is Dr. Suzanne Harris, Deputy Assistant Secretary for Food and Consumer Services; Sonia Crow is Acting Administrator for the Food and Nutrition Service. Regrettably, Robert Leard, the Administrator, is ill and unable to attend today. He sends his regrets about not being able to attend; George Braley is Deputy Administrator for Special Nutrition Programs in the Food and Nutrition Service; and Barbara [Bonnie] O'Neil is working with the family nutrition programs in the Food and Nutrition Service.

[The statement of Mr. Bode follows:]

STATEMENT OF JOHN W. BODE

I am John W. Bode, Assistant Secretary for Food and Consumer Services. I am pleased to be here today to present budget requests of the Human Nutrition Information Service [HNIS] and of the Food and Nutrition Service [FNS] for fiscal year 1987. Dr. Suzanne Harris will summarize the HNIS request and Mr. Robert Leard will summarize for FNS.

Before Dr. Harris and Mr. Leard begin, I want to speak to the U.S. Department of Agriculture's [USDA] commitment to a strong and coordinated system for monitoring the nutritional status of Americans and to the provision of information to help Americans to select diets that support health and well being. Both nutrition monitoring and nutrition education research have a long history in USDA. Important advances have come about through funding for fiscal years 1984, 1985, and 1986. A new type survey of diets in 1985 has already paid off in timely and useful information about dietary change since 1977. The decennial Nationwide Food Consumption Survey of 1987 is planned and ready to go with fiscal year 1986 funds.

We especially appreciate this committee's interest in dietary guidelines for Americans that are sound and sensible and are presented as from "one voice" by the Federal Government. The Dietary Guidelines for Americans, Second Edition, recently released are such guidelines and they form the basis of dietary guidance in USDA and in the Department of Health and Human Services.

The budget for the food assistance programs is proposed at $18.3 billion including funds from section 32. This is about $384 million less than the current estimate for 1986.

Specific proposals include:

> A food stamp budget of $11.7 billion which recognizes a continued decline in participation and is predicated in part on legislation proposals which will be submitted to the appropriate authorizing committee shortly.
>
> A child nutrition budget down nearly $400 million from 1986 which again calls for ending subsidies to nonneedy.
>
> A WIC budget of $1.6 billion which will continue participation at about 3 million women, infants, and nutritionally needy children.

Mr. Chairman, I would again like to ask your considering ending the direct Federal administration of certain child nutrition programs in those States that do not have laws prohibiting them from doing so. The Food and Nutrition Service has about 50 people that could be released for other high priority activities if this proposed provision were included in the final bill.

GOALS OF THE FOOD AND CONSUMER SERVICES

Mr. BODE. In summarizing my statement and asking Dr. Harris to make a statement about the Human Nutrition Information Service and Ms. Crow about the Food and Nutrition Service, let me just say that I think the goals that have been expressed earlier are very much consistent with what we have proposed.

Specifically, with the Human Nutrition Information Service, I would like to emphasize a commitment on our part to monitor the nutritional status of the U.S. population. We are very pleased with the Continuing Survey of Food Intake by Individuals which is now under way. We have released some data from that; and for the first time, we are getting data out in a fairly timely way. The 1985 data were released in 1985. Further reports will be released soon. In the past, it has taken us years and years to get that sort of information out. I appreciate the efforts to have it in a more timely way in an effort to meet that need.

In the food assistance area I would like to mention one thing that is not in the prepared statements. During this administration, we have actually increased, in real dollar terms, the assistance in the School Lunch Program for meals served to children from needy families. When one considers the entitlement and the increase in bonus commodities, the level of assistance has actually increased in real dollar terms to a level above what it was in the previous administration. We did that by making better use of commodities.

ELIMINATION OF NONNEEDY SUBSIDIES

We are proposing some significant savings. We feel that the priority of maintaining the essential assistance to those in need is reflected in our proposals. Cutting back on nonessential subsidies, in particular, subsidies for upper- and middle-income recipients in the family day care homes is an area where changes should be made. Two-thirds of the assistance in this program is provided to those who have income above 185 percent of the poverty level.

Finally, I would mention that the schools that would experience the pressure to drop out of the School Lunch Program are the most affluent schools which have the least number of low-income students. We feel that there is a responsibility today at the State and local levels to take advantage of the very significant amount of Federal assistance that we are proposing to continue for meals served to low-income students as well as others below 185 percent of the poverty level.

Senator BUMPERS. Mr. Chairman, would you indulge me one slight observation, because I am going to have to go in about 60 seconds.

Senator COCHRAN. Of course.

Senator BUMPERS. Mr. Bode, the one thing that I want to ask you is, as you know, the school administrators and the school food service in my State take strong exception to what you have just said.

Mr. BODE. Yes, sir.

Senator BUMPERS. They argue that, for example, the school districts which have 30 percent or less free or reduced meals, that those who have 30 percent or less are going to suffer dramatically under this proposal, because they say that the remaining subsidy is not great enough to take care of those people who are really in poverty.

And if you use the 185-percent guideline, you can make a very compelling argument: Who wants a child who comes from a household of 185 percent of the poverty level to get a free meal? The answer is not very many people, although 185 percent of poverty is not a lot of money.

But the second thing is, food service administrators say that it is important to them that you have been subsidizing students in that category, because the subsidy for the poor alone is not sufficient to operate the program. Now, how do you respond to that?

SCHOOLS RETAIN SUPPORT

Mr. BODE. Sir, I appreciate your raising the point so that I may have an opportunity to address it.

We feel that there is a very strong support that will be provided to all schools under our proposal. If we take your example of the school that has only 30 percent of its students in the lunch program receiving free and reduced-price assistance, the amount of cash and entitlement commodities to be continued for that school would stay at 72 percent of what it would have been under current law.

Even if we move up to the rather higher levels of nonneedy participation, we have very strong levels of Federal assistance continued. The reason is that the vast majority of Federal assistance provided now is for meals served to low-income students. The amount of Federal assistance provided for meals served to children from upper- and middle-income families is much lower, around 25 cents a meal.

One other point that I would like to make, and I think it is an important one to recognize, is that the amount of bonus commodity assistance provided to the schools has increased from about 3 cents a meal served to upward of 9 cents for meals served, by better use of processing and other activities. That assistance would still be available to all schools, not just for meals served through the regular School Lunch Program, but also for use in a la carte lines. It is widely recognized in school food service that a la carte lines help subsidize the School Lunch Program.

Senator BUMPERS. I don't think we have got any a la carte lines in my State.

Mr. BODE. The level of Federal assistance would remain very strong for the schools overall, even among the most affluent schools which are the schools we think are best able to provide some contribution themselves. Bonus commodities would continue to be available.

Senator BUMPERS. Mr. Chairman, I will really appreciate your and the other committee members' indulgence on that. I was reluctant to interrupt a very important meeting, and I am very sorry I have to leave.

Senator COCHRAN. Thank you very much, Senator.

Mr. Bode, you may proceed with your statement.

Mr. BODE. Thank you.

Mr. Chairman, if you don't mind, I would like to ask Dr. Harris to summarize the statement regarding HNIS and Ms. Crow to summarize the statement regarding the Food and Nutrition Service.

Senator COCHRAN. That will be fine. Ms. Harris.

[The statement of Ms. Harris follows:]

STATEMENT OF SUZANNE HARRIS

I am Suzanne Harris, Deputy Assistant Secretary for Food and Consumer Services. I am pleased to be here today to discuss the budget request of the Human Nutrition Information Service (HNIS) for Fiscal Year 1987.

Mission of the Human Nutrition Information Service

The mission of the Agency is to conduct and interpret applied research in human nutrition to improve professional and public understanding of the nutritive value of food and the nutritional adequacy of diets and food supplies, and to provide information needed by the American public to make informed food choices. The importance of research in these areas is specifically emphasized by the Congress in the Food and Agriculture Act of 1977, the Agriculture and Food Act of 1981, and the Food Security Act of 1985.

HNIS has a total of about 90 scientists and support staff in two operating units: the Nutrition Monitoring Division and the Nutrition Education Division. Within the U.S. Department of Agriculture (USDA), HNIS has primary responsibility for the National Nutrition Monitoring System (NNMS). The NNMS includes those activities that are essential to provide regular information about the role and status of factors which bear on the contribution nutrition makes to the health and well being of the American people. HNIS is the national resource for information on the nutritive value of food and for information on food consumption by households and individuals. The Agency also has primary responsibility within USDA for the development of research-based nutrition guidance such as the Dietary Guidelines for Americans and for research to determine how guidance can best be communicated. HNIS research activities support the Department's commitment and responsibilities to the National Nutrition Monitoring System and to nutrition education for the general public.

Major accomplishments in the past year underscore the Agency's commitment to its mission.

1. The Continuing Survey of Food Intakes by Individuals (CSFII) was initiated in April 1985. The first report, covering one-day's food and nutrient intakes by women 19 to 50 years of age and their children 1 to 5, was released to you and the public in December 1985--less than six months after the data were collected. This unprecedented short interval demonstrates the agency's improved capacity to provide dietary information in a timely

manner. This which enhances the usefulness of the results to the Department, to you, and to others.

This report compares the diets of the Continuing Survey's national sample of women in spring 1985 with diets of a similar group reporting in spring 1977 as part of the last Nationwide Food Consumption Survey (NFCS). This comparison indicates that major shifts in food intakes have occurred since 1977. Consumption of--

- meat eaten separately was down, while mixtures containing meat, poultry, and fish were up. Meat intake was lower in 1985 by both low- and high-income women, but the drop off by high-income women was greater.

- whole milk was down and lowfat and skim milk were up. Milk as a whole, was down for low-income women, but up for high-income women. The gain was primarily in lowfat and skim milk.

- vegetables and fruits were down slightly.

- grain products, especially grain mixtures such as pizza and pasta with sauce, were up.

- beverages--soft drinks, punches, ades, and alcoholic beverages--were up.

These and other food shifts translate into diets in 1985 with less fat and more carbohydrate and slightly more of vitamins and minerals than in 1977.

We are just beginning to look at the diets of the special sample of low-income women (household income of 130 percent of poverty or below) sorted by whether or not they receive food stamps. We will provide the Committee with the report in about 2 months, we expect.

Analysis of the CSFII data allow us to identify dietary problems and the factors which have a beneficial or detrimental effect on diet. Some factors to be studied in research being initiated are income, education, employment, size and location of the household, food assistance program participation and eating practices--eating out, skipping meals, and snacking, for example. This information is important in the development of the Agency's nutrition education materials and in the design of effective programs and policies related to agriculture, food assistance, and education.

2. The second edition of "Dietary Guidelines for Americans," based on recommendations of the Dietary Guidelines Advisory Committee was released jointly by the Secretaries of Agriculture and of Health and Human Services on September 24, 1985. HNIS coordinated the effort and is glad to report that the new edition has received broad-based support. The two Departments are providing some free copies; the private sector is reproducing and distributing others.

   Also, HNIS has initiated, under the auspices of USDA's Committee on Research and Education, an interagency Dietary Guidelines Working Group to help USDA and other Federal departments to speak with one-voice in dietary guidance matters.

3. The National Nutrient Data Bank has been expanded to cover more foods and nutrients. Since 1977-78, when USDA's last comprehensive decennial survey was conducted, the number of food components assessed had doubled--from 14 to 28. This expanded nutrient data base will be updated periodically and distributed for use by researchers, hospitals, and others. The data base is also being used by DHHS to evaluate data from the Hispanic Health and Nutrition Examination Survey (HHANES) and will be used in the forthcoming National Health and Nutrition Examination Surveys (NHANES-III).

4. Sections of Agricultural Handbook 8 on Vegetables and Vegetable Products and Nuts and Seed Products were published in 1985, as part of the 23-section revision of this primary national resource of technical information of food composition. Several other sections are nearing completion. The revised Home and Garden Bulletin No. 72, "Nutritive Value of Foods," targeted to a less technical audience, was released in November 1985.

5. A Congressionally mandated report "Evaluation of the Nutrition Assistance Program in Puerto Rico, Volume II: Effects on Food Expenditures and Diet Quality," was prepared for the Senate and House Agricultural Committees (June 1, 1985) by the Food and Nutrition Service. This report was based

largely on results from the Puerto Rican Food Consumption Survey of 1984, designed and conducted for FNS by HNIS staff. FNS was provided with a report of quantitative information about diets in Puerto Rico in terms of food quantities, food costs, and nutrient levels within 45 days after the survey was completed. This is another example of the Agency's ability to process and report dietary data from surveys in a timely manner.

6. The Agency has provided staff support to the Joint Nutrition Monitoring Evaluation Committee in the development of a report on the nutrition of the nation, drawing primarily from NFCS and NHANES II data.

7. Plans for the comprehensive, decennial Nationwide Food Consumption Survey 1987 (NFCS-87) have been completed and the contract is to be let in late summer 1986. This survey, like the one in 1977-78, will provide detailed information about household food consumption and food costs, as well as food intakes at home and away by each household member. A national sample of all households and a special sample of low-income households will be surveyed. In developing the plans for NFCS-87, HNIS worked closely with other Agencies in the Department and DHHS. We also took into account recommendations from the Food and Nutrition Board, National Academy of Science, made in its report "National Survey Data on Food Consumption: Uses and Recommendations" comments solicited from industry, academia, and public interest groups.

Fiscal Year 1987 Budget Request

The HNIS budget request for Fiscal Year 1987 is for $6,876,000, down almost one half from our Fiscal Year 1986 appropriation of $13,469,000. As a result of the Balanced Budget and Emergency Control Act of 1985, HNIS's operating Fiscal Year 1986 budget is $12,889,000. As a result of this decrease in 1986, the data collection for CSFII 1987, which was to have been covered by Fiscal Year 1986 funds, will not be undertaken.

The decrease between Fiscal Year 1986 and Fiscal Year 1987 is primarily due to the fact that Fiscal Year 1986 appropriations covered data collection for the comprehensive NFCS-87, which is not an annual ongoing activity. In the past, Nationwide Food Consumption Surveys have been conducted on a decennial basis. The remainder of the decrease reflects the Administration's decision not to undertake

CSFII field work and data collection in 1988. This interruption in CSFII will allow us to evaluate methods and data collected in 1985 and 1986 from the CSFII and the comprehensive NFCS-87 to determine the most efficient combination of surveys for providing necessary and current information on food consumption and dietary status.

The funding requested for HNIS will support continued analysis of data already collected through the CSFII; initiation of analyses of data collected through NFCS-87; preparation for the evaluations mentioned above; and current program levels for the National Nutrient Data Bank activities, (including continuation of the study of the selenium content of foods started in FY-86). Also, the request includes funding for nutrition education research.

Ongoing HNIS Activities

Nutrition Monitoring. A Joint Implementation Plan for the National Nutrition Monitoring System (NNMS) was submitted to Congress in 1981. The initiation of the CSFII and NFCS-87 are part of that plan as is the expansion of the National Nutrient Data Bank. Data from the NNMS are used for agricultural, food assistance, and nutrition education program development. We are now working with DHHS to develop plans for NNMS activities through 1992.

Major monitoring activities in progress include:

- o Determination through methodology studies of the best methods for collecting data and improving efficiency.
- o Participation in regular conferences with DHHS to develop ways to improve the comparability between the Department's NFCS and CSFII and DHHS's NHANES.
- o Planning of two regional workshops to help State public health nutritionists to use data from CSFII, NFCS, and NHANES.
- o Evaluation of methods and research requirements for assessing the risk of nutritional deficiencies associated with diets that fall below the Recommended Dietary Allowances (RDA).
- o Collection of data for CSFII 1986. This survey provides timely information between the decennial surveys on the dietary adequacy of population groups at high nutritional risk.

- Preparation of CSFII statistical reports. The Department expects to release soon reports from CSFII-85, in addition to the one described earlier. These reports will cover one-day's food and nutrient intakes by low-income women and children and by men. Also, there will be reports on the usual intakes by women and children as indicated by 6 days of intakes spread over 1985.

- Indepth analysis of CSFII data. Intramural analyses are underway and extramural analyses will be contracted for this summer.

- Completion of plans for NFCS-87 (design, data collection, data processing, analysis, reporting). The contract will be negotiated this summer for data collection from April 1987 to March 1988.

- Updating of the support systems for NFCS-87. Food coding system, internal data processing mechanisms, and nutrient data bases are well underway and will be in place before the survey is initiated in April 1987.

- Estimation of the nutrient content of the national food supply each year. Results are interpreted in a variety of publications.

National Nutrient Data Bank. An integral, essential component of the NNMS is the National Nutrient Data Bank. With data from the Data Bank, diets reported in the CSFII and NFCS-87 can be appraised for their nutrient content, and dietary guidance to help Americans upgrade the nutritional quality of diets can be developed. The data base for USDA's CSFII and NFCS-87 will also be used by DHHS's HHANES and NHANES III.

Information on the nutritive value of foods is a valuable national resource for researchers and educators concerned with food and nutrition, as well as for national and international food and nutrition planning. To date 12 revised sections of Agriculture Handbook No. 8 have been released. Release of 4 additional food groups--Beef, Beverages, Fish, and Legumes is planned for later in Fiscal Year 1986.

Nutrition Education. The Agency develops food and nutrition materials and techniques for increasing nutrition knowledge of professionals and consumers and improving food selection behavior. Of particular importance is research to solve practical nutrition problems faced by Government policy makers, educators, health professionals, and consumers.

Major nutrition education research activities underway include:

- Promotion of the "Dietary Guidelines for Americans," Second Edition. These guidelines form the basis of dietary guidance policy in USDA and DHHS, and HNIS attempts to monitor Federal publications for conformance to guideline concepts. A Spanish version of the Guidelines is being readied for publication.

- Interpretation of the Dietary Guidelines to help the public. To help the public put the Guidelines into practice, HNIS is developing 14 small bulletins--4 to 12 pages each. The first seven--one for each guideline of the seven guidelines--are ready to go to press. The other seven, to be published later in 1986, tell how to use the guidelines together while shopping for food, planning meals, preparing food at home, making quick meals, preparing bag lunches, selecting food away from home, and choosing snacks. Results from HNIS research to determine how target audiences respond to different publication designs and content are being used.

- Development of a microcomputer system for assessing the nutritional adequacy of diets. This system is primarily for use by Extension Agents. HNIS is developing the software and the data bases and will work with Extension in testing the system, evaluating the results, and revising the prototype system for use. HNIS will also be responsible for keeping the data bases up to date.

- Estimation of costs for food plans at four cost levels monthly. (The least costly of these food plans, the Thrifty Food Plan, is the legal basis for Food Stamp Program benefits.) Plans are being made to revise the food content and the costing procedures for the four food plans using data from NFCS-87.

- Analysis of data from the surveys to gain an understanding of dietary problems and, their causes. For example, researchers will study certain changes in eating patterns, such as increased proportions of away-from-home meals, and of snacking and their effects on diet quality.

- Studies to show the change from average food intake required to meet RDA. These studies will allow the RDA Committee of the Food and Nutrition Board of the National Research Council to evaluate levels they suggest for their expected effect on diets. This type research is unique to HNIS because of the information HNIS develops on food composition and food consumption and their experience with computerized mathematical models to modify diets to meet prescribed specifications.

In summary, HNIS is the national resource for information on the nutrient content of foods and monitors the nutrient content of the food supply and food and nutrient content of the diets of households and individuals. The Agency conducts research needed for the development of materials and techniques that will help Americans improve their diets. We view these activities as basic to the Department's mission to assure that a safe, nutritious, wholesome supply of food is available to all Americans and to provide information with which healthy Americans can select nutritious and healthful diets.

Mr. Chairman, I will be happy to answer any question you or other committees members may have.

BIOGRAPHICAL SKETCH

SUZANNE S. HARRIS
Deputy Assistant Secretary
for Food and Consumer Services

Suzanne S. Harris was appointed Deputy Assistant Secretary for Food and Consumer Services on September 19, 1985. She served as Administrator of the Human Nutrition Information Service from May 13, 1985 until being appointed Deputy Assistant Secretary.

Harris received a Doctor of Philosophy degree in Biochemistry from the University of Alabama at Birmingham (UAB) and a Bachelor's degree in Chemistry from Vanderbilt University.

Prior to her service at USDA, Harris was concurrently an Assistant Professor in the Departments of Nutrition Sciences, Comparative Medicine and International Public Health at UAB. During her eleven years in a faculty position at UAB, she was primarly involved in nutrition research with teaching responsibilities in nutrition and in statistics and experimental design.

HNIS STATEMENT

Ms. HARRIS. Thank you, Senator. As you mentioned and as Mr. Bode pointed out, HNIS is the agency in the Department that has responsibility for the National Nutrition Monitoring System. This year we are very proud and excited to present new data that are an important contribution of that new system, we believe, and these data are from the Continuing Survey of Food Intakes by Individuals.

This is a smaller survey, which is intended to supplement the decennial Nationwide Food Consumption Survey, where we look at intakes of individuals and try to determine how their dietary patterns might affect their health.

The other component of the HNIS effort is nutrition education, nutrition guidance. We do research in that area, but also, are responsible within USDA for helping to come up with consensus information which can be shared with the American public. An example of this was the revised edition of the Dietary Guidelines which were released in September 1985.

The agency will be working to give more information to the American people so that they can better understand the scientific research which is presented to them daily in the grocery store or by the media, wherever they might see it, and use this information to increase their awareness of their dietary needs and, hopefully, change their dietary patterns to some extent.

The agency does interact on a continuous basis with agencies in the Health and Human Services Department which also have responsibility for nutrition monitoring and for nutrition education. We believe that we are making progress toward having a better coordinated nutrition monitoring system and more information that is jointly published between the two departments.

Thank you.

Senator COCHRAN. Thank you very much. Ms. Crow, you may proceed.

[The statement of Ms. Crow follows:]

STATEMENT OF SONIA CROW

I want to thank you for again providing the opportunity for us to present the Budget for the programs administered by the Food and Nutrition Service.

These programs include the Food Stamp Program, the Child Nutrition Programs, Special Milk Program, the Special Supplemental Food Program for Women, Infants and Children, the Commodity Supplemental Food Program, Cash and Commodities for Selected Groups and Food Program Administration. This Agency also administers the Temporary Emergency Food Assistance Program.

With me today are several of the senior managers of the Food and Nutrition Service who have helped me testify before, including Sonia Crow--Associate Administrator, Virgil Conrad--Deputy Administrator for the Family Nutrition Programs, George Braley--Deputy Administrator for the Special Nutrition Programs, and William Boling, the Agency's Budget Officer. With me today as well is Mr. Joseph Leo, Deputy Administrator for Management; I will submit Mr. Leo's biographical sketch for the record.

Mr. Chairman, I am pleased to present this Agency's budget which recognizes the important role that these programs play in sustaining the health and well being of the nation's population. The fact that many of the Agency's programs have been specifically exempted from recent deficit reduction measures underscores the importance Congress attaches to these programs.

For Fiscal Year 1987, the Food and Nutrition Service is requesting about $17.7 billion. The changes proposed in this budget reflect the spirit of Gramm-Rudman to improve and tighten administration, to eliminate benefits to non-poor households and to repeal yet-to-be implemented changes aimed at program expansion. This is substantially below the 1986 program levels appropriated by the continuing resolution.

CHILD NUTRITION PROGRAMS

For Fiscal Year 1987, we are requesting an appropriation of $3,458.3 million, a reduction of $415 million below the amount appropriated for Fiscal Year 1986.

Overall, the costs of the Child Nutrition Programs remain relatively stable. The reductions are due primarily to the following legislative proposals:

- Eliminate cash and commodity subsidies for meals served to non-needy children.
- Reestablish a means test for family day care homes to assure that these funds are used for needy children.
- Make the rates paid for meals served in the summer program comparable to those rates paid in the school and child care programs and discontinue per meal administrative payments.
- Eliminate unneeded special audit funding in the child care program. The Single Audit Act of 1984 requires organization-wide audits for organizations receiving Federal funds, making obsolete special funds such as this one, originally set up for States to conduct program specific audits.
- In Fiscal Year 1987 only, offset the State Administrative Expense (SAE) funding by the amount of funding identified as unexpended by the recently completed SAE report. We wish to clarify that we are not seeking a permanent change in authorizing legislation to implement the recoupment of carryover funds.
- Continue the current level of support for payments to schools receiving additional payments for lunches and breakfasts without allowing increases in their funding level.
- Eliminate the authorization for the Nutrition Education and Training Program.

We are not requesting new budget authority for the Special Milk Program in Fiscal Year 1987. Legislation, to take effect July 1, 1986, is proposed to limit reimbursement to milk served only to children from households with incomes below 130 percent of poverty. Sufficient funds will be available from the Fiscal Year 1986 appropriation to provide the estimated $1.4 million needed to fund free milk served to needy children.

A total of $1.617 million is requested for the Special Supplemental Food Program for Women, Infants and Children (WIC). This is an increase of $57 million above the funds available from the Fiscal Year 1986 appropriation. It is expected that this increase will fund the costs of inflation and maintain participation of about 3 million individuals.

For the Commodity Supplemental Food Program we are requesting $38.6 million--an increase of $1.8 million. Participation in this program will be about 140,000 women, infants and children. We will continue to serve those elderly who have participated in the pilot projects in Fiscal Year 1986. We are also proposing to eliminate administrative funds which are paid based on the value of donated commodities which are not part of the prescribed food package.

FOOD STAMP PROGRAM

For the Food Stamp Program, the budget projects a continuing decline in participation due to general economic improvement. We are requesting an appropriation of $11.5 billion, a reduction of about $350 million from last year's request. We are proposing the following legislative provisions:

We are proposing to repeal the following, not yet implemented provisions of the Farm Security Act of 1985 (P.L. 99-198).

- Increase in the asset limit from $1,500 to $2,000 and the extension of the $3,000 asset limit to one-person elderly households.
- Increase in the earned income deduction from 18 to 20 percent.
- Increases in the dependent care and excess shelter deduction and the separation of the limit on the total of these two deduction.

In addition, we are proposing to speed up the timetable for the full implementation of the new work requirements by the States as required by the new Act. The proposed language will also strengthen the required level of State compliance for work eligible food stamp applicants and recipients.

We have developed a number of proposals in concert with the Department of Health and Human Services. As a step towards greater uniformity, we are proposing to:

- Reduce the Federal matching rate to 25 percent for State expenses greater than 175 percent of the national median cost per participant. The cost level will be published in advance to allow States to lower their administrative costs if necessary.
- Reduce the matching rates for anti-fraud expenses and computer design and implementation costs. Beginning April 1, 1987, the match rate would be reduced from 75 to 70 percent and would continue to decrease 5 percent every six months until April 1, 1989, when the rate would be 50 percent.

It is our objective eventually to bring matching criteria for Federal administrative expenses in line with each other whether the programs be Aid to Families with Dependent Children, Medicaid or Food Stamps.

In addition, we are also seeking to reduce program costs by:

- Prohibiting households from including energy assistance payments in the calculation of excess shelter deductions.
- Counting stipends under the Job Training Partnership Act as income.

The appropriation for Food Donations has been retitled "Cash and Commodities for Selected Groups". This appropriation would fund the Needy Family Program (cash and commodities for Indian tribes), Palau Island and the Nutrition Program for the Elderly.

For the Needy Family Program, we are proposing to fund the current program plus a modest level of growth in Fiscal Year 1986. For the Nutrition Program for the Elderly $132 million is requested--the level of the current program authorization.

While the Farm Security Act of 1985 extended the authorization for the Temporary Emergency Food Assistance Program, we are not requesting administrative funds for this program. However, we intend to continue to donate commodities at about the same level as last year. We believe the States can bear the cost of intrastate distribution.

Last, Mr. Chairman, I would like to discuss our request for Food Program Administration. The resources requested are necessary to carry out the mandates of Federal law which require the Federal government to monitor and assist States in the conduct of these programs. While our major programs are exempt from the reductions imposed by the Deficit Reduction Act--our administrative funds have been subjected to the reductions required of all USDA agencies for that Act. The net result is that while the basic programs remain in place our resources to administer them continue to shrink. Since 1981:

-- Our staff has been reduced by about 600 staff years to the 2,060 in the budget proposal.

-- Our travel has been cut nearly inhalf to the $3.3 million requested.

-- We have reduced other administrative costs by almost $2 million in the face of cost increases driven by inflation.

We have squeezed over one million dollars from administrative funds in the past few years and invested it in micro-computers to enhance our productivity. The $4.2 million requested in this budget is the first time we have requested funds for automation. We are planning to invest another one million dollars from further reducing staff for a total of $5.2 million for the implementation of our Information Resources Management (IRM) plan.

Staff reductions and continued heavy workloads make it imperative that the Agency avail itself of all cost-effective enhancements to productivity. Development of abilities to use automated data processing and administrative office automation technologies are necessary to absorb changes in workload requirements. The replacement of outdated hardware and software will significantly improve Agency response for information processing and provide uniform hardware/software products through the Agency. Through automated data processing investments, the Agency plans to increase employee productivity and improve Agency support functions.

Thank you Mr. Chairman for this opportunity. I will be happy to answer your questions.

BIOGRAPHICAL SKETCH

JOSEPH LEO

JOSEPH LEO is the Deputy Administrator for Management with the U.S. Department of Agriculture's Food and Nutrition Service (FNS). He has held this Senior Executive Service position since June 1984. In this capacity, Mr. Leo is responsible for providing Management leadership in the areas of: Information Resources Management, Personnel, Civil Rights and Equal Employment Opportunity, and Contracting and Administrative Services.

Prior to his present position in FNS, Mr. Leo was General Manager for Automated Systems Development and Deputy Associate Administrator for Administration with the Urban Mass Transportation Administration of the U.S. Department of Transportation. Mr. Leo joined the U.S. Department of Transportation in 1971 and held progressively responsible positions in the Federal Highway Administration, the Office of Secretary, and the Urban Mass Transportation Administration prior to his appointment with FNS.

Additional Goverment service included employment as a Resident Research Fellow with the National Aeronautics and Space Administration in 1970. Mr. Leo served active military duty with the Army from 1961-1964.

Mr. Leo has a BA in Political Science from Western Illinois University, an MA in Science Policy from Purdue University, and was a post-graduate fellow in Science, Technology, and Public Policy at Case Western Reserve University.

FISCAL YEAR 1987 FOOD AND NUTRITION SERVICE BUDGET

Ms. CROW. It is a pleasure to be with you and, again, I convey Mr. Leard's regrets that his condition did not permit him to join you today. He certainly would have preferred it.

As the chairman has already indicated, the Food and Nutrition Service is requesting a budget for fiscal year 1987 of $17.7 billion, and the changes that are reflected in our budget are our attempts to judiciously live up to the spirit of deficit reduction, to improve and tighten administration; to eliminate benefits to nonpoor households, and to repeal yet-to-be-implemented changes aimed at what we consider unwarranted program expansion.

Starting first with the child nutrition programs, we are requesting an appropriation of $3.458.3 billion, which is a reduction of approximately $415 million below the amount appropriated for fiscal year 1986. Overall, the costs in the child nutrition programs do remain relatively stable, and the reductions that we are seeking are primarily due to legislative proposals.

The overall savings that we anticipate with these proposals amount to approximately $775 million. The two main proposals that will save the bulk of the money are the elimination of cash and commodity subsidies for meals served to nonneedy children in the National School Lunch Program, the issue that Senator Bumpers was discussing just a moment ago; and the reestablishment of a means test at the 185-percent level of poverty for the family day care homes. This would assure that the funds provided to family day care homes would be used strictly for needy children. In addition, we are making other proposals which are more fully detailed in our statement.

Let me turn now to the budget request that we are making for the special supplemental food programs. As the chairman mentioned, we are requesting $1.617 billion for the Special Supplemental Food Program for Women, Infants, and Children [WIC], which is an increase of $57 million over fiscal year 1986 and reflects an increase that would support a caseload of a little over 3 million individuals for fiscal year 1987. In addition, in the Commodity Supplemental Food Program, we are requesting $38.6 million, which is an increase of $1.8 million. We anticipate participation in this program will be a little over 140,000 women, infants, and children.

Now, moving on to the Food Stamp Program, the budget projects a continuing decline in participation due to the improvements that we have seen for some time now in the general economy. We are requesting an appropriation of $11.5 billion, which is a reduction of $350 million from last year's request.

We are proposing to achieve overall savings of approximately $313 million through several legislative proposals. First, the repeal of legislation that was passed this past year which we feel requires unwarranted program expansion. Specifically, those provisions that we propose to repeal have to do with increases in the assets limit from $1,500 to $2,000 and the extension of the $3,000 limit to one-person elderly households; increases in the earned income deduction; increases in the dependent care and excess shelter care deductions; and a number of other proposals. This expansion would cost $189 million.

In addition, we have developed, in conjunction with the Department of Health and Human Services, a number of proposals which we feel will permit us to have greater uniformity among the various assistance programs. These overall savings amount to approximately $6.3 million and are focused on two particular proposals, which would reduce the Federal match to 25 percent for State expenses greater than 175 percent of the national median cost per participant.

In addition, we are proposing to ask for a 3-year phase-down for our enhanced funding rates of 75 percent for antifraud activities and for computer design and implementation costs.

In the course of the 3-year phase-down, our matching dollars would be reduced from 75 percent to 50 percent. Our objective in these proposals is eventually to bring matching criteria for Federal administrative expenses in line with each other, regardless of whether the program is from the Food and Nutrition Service, the Department of Agriculture, or from programs that are run by the Department of Health and Human Services.

In addition, we are seeking to reduce costs in a number of other areas by prohibiting households from including energy assistance payments in the calculation of their excess shelter deductions.

For the Needy Family Program, we are proposing to fund the current program at a modest level of growth in fiscal year 1987, and for the Nutrition Program for the Elderly, our budget reflects a request of $132 million.

In the Temporary Emergency Food Assistance Program [TEFAP], we are not requesting the $50 million in administrative funds. We feel that it is fully within the ability of the States to provide these administrative funds. However, the Department will continue, of course, to provide commodity assistance to the States. Last year, we provided well over $900 million worth of commodities. This level of assistance will continue in fiscal year 1987.

Let me spend a few moments, before we turn to your questions, discussing our food program administration request. Along with all the other agencies in government, we have been doing our best to have a prudent reduction in our own internal costs without a reduction in services, both to our constituents and to the recipients that are in need of our services.

I think that we have done that in a fashion that has not detracted one bit from the services that we provide. We are very proud of the achievements that we have made so far and will continue to make in the spirit of Gramm-Rudman.

One important issue, though, is presented in our fiscal year 1987 request. That has to do with a line item of $4.2 million which we are requesting for the first time for computer equipment, so that we can continue to modernize and automate our services. We feel that this is our key to the future and will enable us to provide the high quality services that we know are expected of us in the Food and Nutrition Service.

That concludes my remarks, Mr. Chairman. At this time, we will be pleased to answer questions as they are directed to us.

Senator COCHRAN. Thanks very much, Ms. Crow.

LEGISLATIVE CHANGES IN THE APPROPRIATIONS REQUEST

I noticed in the budget this year that we are, again, being asked in the appropriation request to make legislative changes in some of these programs. Every year, we see this in the budget request in the food and nutrition area, but in no other area of the Department of Agriculture's budget is that done. If requests for legislative changes are submitted in the programs of other agencies, they are submitted separately.

But in this part of the budget, the legislative changes are submitted as a part of the appropriations request. This, therefore, understates the amount of money that is really needed under current law to fund these programs, and so when we recommend to the full committee a level of funding for these programs, it appears that we are recommending amounts substantially in excess of the administration's budget request. But we make those recommendations based on current law requirements.

We are tired of it, and we just want you to know that and wonder if you have an explanation as to why that continues to be the practice of the Department, and can we expect that to be the practice next year and the next?

Mr. BODE. Senator, let me just explain that I understand the committee's frustration, particularly since this part of the budget is handled differently from other parts of the President's budget.

I, in all candor, must concede that I did not realize before this year that it is different from other parts of the budget. I guess we all direct our attention primarily to the parts of the budget that we are most responsible for.

I can assure you, Secretary Lyng was impressed by your comments to him on this subject earlier this month, and I also intend to discuss the matter with my colleagues at the Office of Management and Budget who, of course, have control of these sorts of decisions. Otherwise, I really don't have anything I can offer.

Senator COCHRAN. I appreciate your response and hope that we can, at least for the benefit of those who observe the process closely, have an understanding of what is happening, so that it won't be assumed that we are just capriciously recommending funding levels that are way above those levels which are being requested by the administration for these programs.

NATURE OF FNS PROGRAMS

These are unusual programs. They are not strictly entitlement programs, but they are so close to it that they do require the appropriation of funds. If a person meets certain eligibility criteria, then there is going to be an expectation of receiving benefits under these programs. If the funds aren't made available, they may not be entitled to pursue an action in court against the Government for the delivery of these benefits, but I can imagine that the action which would be taken to demonstrate the concern and displeasure of those who have not been supplied the benefits that the law purports to make available would impress the Congress and the administration and, necessarily, result in the availability of funds for those benefits.

So what we are doing as a committee is trying to assess the assumptions of food costs, of unemployment rates, of projected need under the authorizing language in the statutes, and then trying to come up with a recommendation that, as nearly as possible, approximates what would really be required to operate those programs under current law.

We know that the administration has been pushing for some time for changes in the food stamp law and in some of the child nutrition programs. We have a conference between the House and the Senate—not much progress is being made, but a conference committee exists—to try to work out differences between the House and Senate versions of legislation which will reauthorize programs in the child nutrition area. If the conference committee does not implement the savings which you have assumed, can we expect a supplemental budget request or an amended budget request?

Ms. CROW. At this time, the budget request of $3.5 billion is, indeed, predicated upon the legislative savings that we have put forward, the bulk of which come from changes in the paid subsidies in the School Lunch Program and the means test in the child care programs. At current services levels, without the legislative proposals being implemented, these programs would require approximately $4.2 billion. If the legislation is not passed, additional funds would be necessary.

CHILD NUTRITION PROGRAM FUNDING

Senator COCHRAN. I noticed that we provided, in the continuing resolution under which we are now operating, $4.1 billion for child nutrition programs, which was the amount required in current law. Of that amount, though, $665 million was made available subject to the transmission of an official budget request. We did this to allow the authorizing committee to complete action on the child nutrition reauthorization package.

When the budget request was submitted, though, this year, only $424 million of the $665 million was requested.

How was that amount chosen?

Mr. BODE. That was our projection of the funding need using basically consistent approaches as in previous years, Senator.

Senator COCHRAN. I have other questions. I am going to let other Senators, though, ask their questions and then come back to those that I have. I am going to recognize Senators in the order in which they came into the hearing room.

Senator Kasten.

PENDING LEGISLATION

Senator KASTEN. Mr. Chairman, thank you.

I would like to make just a brief comment, if I might, about the provisions of H.R. 7, the bill to reauthorize child nutrition programs. An amendment was added to that bill in the House that would have expanded eligibility for milk under the Special Milk Program for kindergarteners. Another would have required schools to offer whole milk to students as part of the School Lunch Program. I just wanted to express my support for these initiatives.

I think it is important to encourage healthy eating habits in our young people and to do this as early as possible. Expanding the eligibility for special milk assistance to kindergarteners would be one modest step we could take in this direction. H.R. 7 has been in conference since last year. I don't know if we will ever see it again over here, and I realize the need for spending restraint here and in other areas, but I think that the House amendments I referred to represent a couple of inexpensive ways to achieve some very worthwhile objectives.

DAIRY SUPPORT POLICY

I wanted to just ask Mr. Bode a broader question. It seems to me that it simply isn't cost-effective to have the system that we have got whereby we, on the one hand, spend money to convert fluid milk to dry milk or fluid milk to cheese or whatever, and then put it into storage; then on the other hand we have got so-called savings that we are making by reducing the Special Milk Program, or by making other kinds of changes.

Certain commodities are in surplus, particularly those commodities that require processing to store. It seems to me that not only are we cutting back on worthwhile programs, but the net cost to the Government is higher doing it the way we are doing it than it would be if we just simply turned the surplus product, for example, fluid milk, into milk for Wisconsin breakfast and lunch programs.

Somehow—and I am going to try to do this working with you—we ought to try to find a way of recognizing the true cost, because it is incredible the amount of money we are spending today on the fluid milk to cheese to storage effort. Then we are also spending a significant amount of money in some of these programs.

Do you understand my question?

Mr. BODE. Yes, Senator.

Senator KASTEN. It is something that I think we ought to deal with as a government policy.

Mr. BODE. I must concede that, at times, I think we are inclined to look at only one piece of the budget and be concerned with that exclusively, rather than the overall costs to the Federal Government.

We thought this was a very important question and did some analysis on the subject concerning reductions in the Special Milk Program and whether it was actually cost-effective in light of the dairy price support program, particularly when we are removing significant amounts of product from the market.

That analysis did indicate that there was still a significant cost savings to the Federal Government. Of course, those issues should not be addressed exclusively in terms of cost savings to the Federal Government, but also the nutritional impact, and the milk program, as you know from your leadership in these areas, is only available in schools that do not have one of the other Federal feeding programs.

We have looked into that matter. We would be very pleased to provide you a statement of that analysis.

Senator KASTEN. Let's work together, because it is not only that we want to show whether, in fact, the Government might be wasting money here, but also that the true cost of your programs might be less than it is now reckoned to be. I think that we ought to recognize that the benefits of nutrition programs might not cost as much as it would appear from the numbers in each year's appropriation.

I would like to work with you. I hope very much that we can work together to get at the answers to some of these questions. I know it is not an easy subject; it involves accounting, and it is in all these different agencies, and that makes it more complicated.

Mr. Chairman, thank you.

[DEPARTMENT'S NOTE.—The analysis referred to was done in July 1982 in response to Milk Industry Foundation proposals. Upon review, it is apparent the analysis needs updating to reflect more recent Special Milk Program and Commodity Credit Corporation data as related to the administration's current proposal. The Department will be glad to work with Senator Kasten on a revised analysis.]

Senator COCHRAN. Thank you, Senator.

Senator Burdick has asked that we proceed to Senator Harkin now, and we will do that at this time.

Senator Harkin.

NUTRITION ASSISTANCE FOR PUERTO RICO

Senator HARKIN. Mr. Chairman, thank you. Really, Mr. Bode, I would like to cover a little bit with you the recommendation for the Nutrition Assistance Program in Puerto Rico.

Mr. BODE. Yes, sir.

Senator HARKIN. Both the Senate and the House of Representatives approved in the Food Security Act of 1985, the so-called farm bill, an inflation adjustment beginning in fiscal year 1987 for the Puerto Rican Nutrition Assistance Program [NAP], an adjustment which has been denied for the last 5 years. Your Department, Mr. Bode, has requested $825 million for the Nutrition Assistance Program for fiscal year 1987, despite the inflation adjustment authorized in the 1985 farm bill, which raises the ceiling on NAP block grants from $825 to $852.75 million.

Your recommendation would translate into a loss to Puerto Rico of $27.75 million. Even the Senate Budget Committee has recognized the unreasonableness of such a reduction and has recommended fiscal year 1987 program funding at $847.11 million. Mr. Bode, when the House and Senate Agriculture Committees took action to adjust the Puerto Rico Nutrition Assistance Block Grant Program for inflation, we did so out of real concern for the people of Puerto Rico. The intent of the Food Stamp Program has always been to alleviate hunger for the poorest of the poor.

I don't think anyone can deny that Puerto Ricans are the poorest of the poor. Over 62 percent of the population of Puerto Rico live below the Federal poverty level. Unemployment in the Commonwealth has climbed to a yearly average of over 20 percent, and food costs average 32 percent higher in Puerto Rico than they do in the metropolitan Washington, DC, area.

Again, I would remind, I don't need to remind you, Mr. Bode, but for those who may not know or understand, Puerto Ricans are American citizens. They are part of this great country.

I remember in 1981, I believe it was, or 1982 when we took them off the program and put them on this NAP, this block grant program and stabilized it. I remember the debate surrounding that, whether or not we should do that, and I think it was, at that time, perhaps a reasonable approach to take. However, since that time, we have seen some pretty drastic things happen in Puerto Rico; the poverty level increased.

As I said, the unemployment level has climbed to a high of 20 percent. Their food costs have skyrocketed in Puerto Rico. As I say, the poverty level has gone up.

INFLATION ADJUSTMENT NEEDED

I would argue that basically, since they are American citizens, that they ought to really go back on the Food Stamp Program. I understand that that won't happen. But at least Puerto Rico ought to be treated as both the House and Senate approved in the farm bill, and that was to give it an inflation adjustment up to $852.75 million.

I just can't understand now, Mr. Bode, how you can recommend that we go back to the old cap of $825 million when only a few months ago, the President signed the 1985 farm bill authorizing funding of $852.75 million and the Senate Budget Committee has recommended $847.11 million. So I would just appreciate your comments on this and your observations, too.

Mr. Bode. Yes, sir; I would like to comment briefly and ask Ms. Crow to augment my comments.

Of course, what the 1985 farm bill did was authorize a higher level of expenditures, and we do feel that the amount of funding up to that limit was still within the matter of appropriations discretion. The $825 million appropriation request is another statement, a restatement, if you will, of our longstanding policy of maintaining that level as in the past.

Senator Harkin. The $825 million?

Mr. Bode. Yes, sir; while the farm bill changed the authorization limit, we still feel that maintaining that level of funding is appropriate. Of course, the farm bill included many provisions that the President did not agree with, but on the whole, he felt it was an improvement and it warranted his signature. He did not specifically address all of the items with which he disagreed when he signed the bill.

As I recall, the statement issued when he signed the bill was a rather brief, two-page statement. Puerto Rico was not mentioned there, but it was certainly one of the items that was mentioned in the legislative reports internally. That is not inconsistent with administration policy.

IMPACT ON THE ECONOMY

Puerto Rico has had a very generous level of assistance, I think, through the Food Stamp Program, and so the base that is used for purposes of comparisons is one that ought to be assessed, as well. At the time the Nutrition Assistance Program was established, between 55 and 60 percent of the population of Puerto Rico was receiving funds.

Senator HARKIN. Repeat that?

Mr. BODE. Sir, as I understand, at the time the Nutrition Assistance Program for Puerto Rico was enacted, food stamp participation was between 55 and 60 percent of the population; my recollection is that it was 56 percent.

Ms. CROW. I believe it was closer to 60.

Senator HARKIN. At the time?

Mr. BODE. Yes; at the time. The percentage of the population receiving food stamps was far higher than anywhere else. The judgment was that this level of assistance was disproportionate to the needs of a small portion of the U.S. population. The Food Stamp Program was changing the basic complexion of the economy of Puerto Rico, and rather than ratcheting down that assistance further, we felt it was appropriate to have that addressed proportionately. In addition, modest rates of inflation have been experienced since that determination was made.

Ms. Crow, would you like to comment, especially on the special projects?

Ms. CROW. Yes; certainly. I appreciate the opportunity to add a few comments to Mr. Bode's statement.

The overall level funding of the $825 million has given Puerto Rico an opportunity to do a number of things within that grant, because they have a great deal of flexibility as to how they can spend the money. When you look at the level of benefits that go to the needy citizens under this program, you will find that less than $790 million is actually spent on benefits. Puerto Rico, in fact, has been funding a number of the special projects—tick eradication programs, crop protection programs—with a portion of the grant that they have received.

We feel that the amount of money that we have requested in 1987 is a more than adequate level to provide benefits to needy citizens in Puerto Rico and still give the Government some flexibility in how it could spend the excess amount of money, because all of this money does not go to the citizens. It goes into a number of special projects.

Senator HARKIN. Name those other projects again?

SPECIAL PROJECTS

Ms. CROW. There were a number of agriculture projects that we have clustered under the titles of special projects. Puerto Rico, in fiscal year 1985, spent close to $14 million on special projects. They spent over $3 million on crop protection; $8.3 million on tick eradication; and over $2 million on nutrition education. These are projects that the Puerto Rican Government has indicated to us.

Senator HARKIN. How much of that was utilized in food stamps?

Ms. CROW. In food stamp benefits they spent about $788 million.

Senator HARKIN. $788 million?

Ms. CROW. Those are direct benefits.

Senator HARKIN. In fiscal year 1985?

Ms. CROW. That is correct.

Senator HARKIN. Just in food stamp benefits, and they received $825 million, right?

Ms. CROW. That is correct, in 1985 they did; yes.

Senator HARKIN. There is still a lot that I don't understand where it went.

Mr. BODE. Senator, I would like to take the opportunity to commend the Commonwealth of Puerto Rico for the reductions they made in their administrative costs and other management improvements that they really accomplished when they took over this program and converted it from food stamps. They made some real improvement in the way things are being run.

Senator HARKIN. I am just wondering if you have taken into account recent changes in the unemployment level there. In 1982 when we changed it, the unemployment level—my figures show it was less than 17 percent—has now climbed to over 20 percent. There has been a definite increase in the unemployment level in Puerto Rico. More than 100,000 families were dropped from the roles to be eligible, and there was the increase in food prices. I don't know what has caused that, but the food prices have gone up in Puerto Rico.

Again, I am just wondering if that has been taken into account.

Ms. CROW. If you look at the numbers over the past several years as to the level of benefits, you will find that they are approximately in a steady state, even though they were slightly higher in 1985 than in 1984. You are still well within small margins. Our figures indicate that that would remain steady in the future, that there is no unanticipated upswing in the need for additional benefits.

CURRENT COST ESTIMATE

Senator HARKIN. Let me just ask this, Mr. Bode or Ms. Crow. When we changed this in 1982, we pegged the NAP at 25 percent less than what they would receive if they had stayed on the Food Stamp Program; is that right? It was 25 percent less.

Ms. CROW. That is a good number.

Senator HARKIN. Could you supply for me what that figure would be if, in fact, we kept it at the 25-percent level? I don't know. I am just asking you. In other words, if they were on the Food Stamp Program just like the rest of mainland America and you took 25 percent less than that, what would that come in at? Would it be $825 million or less than or more than that? Where would it come in, if we repeat that 25-percent level?

Mr. BODE. Yes; we can provide that sort of information for you.

Senator HARKIN. I would just like to see it.

Mr. BODE. Let me be sure I understand your question so we give you the information you need.

You would like to know what the projected cost of the Food Stamp Program in Puerto Rico would be at 25 percent less than current law?

Senator HARKIN. Basically, project for next year, if Puerto Rico were still in the Food Stamp Program, how much money would that be for Puerto Rico for fiscal year 1987. Then take 25 percent of that, and I would just like to know what that figure is.

Ms. CROW. We can do a mathematical computation for you. It is important to keep in mind, though, that Puerto Rico has total flexibility now in how they are going to run this program. They made made certain modifications to the income eligibility levels for their citizens, because they wanted to expand the benefits to the poorer citizens. They made some changes that are not directly lined up with the way we would run the Food Stamp Program, so the numbers we are going to give you are going to have that methodological flaw in them, but we will have to figure that for you and provide it at a later time.

Senator HARKIN. I would like to know that.

[The information follows:]

PUERTO RICO FOOD STAMP PROGRAM

It has been nearly 5 years since we put the reforms enacted in 1981 into place. There have been many changes in both the Food Stamp Program and general economic conditions in the intervening years. For the last 4 years, Puerto Rico has administered the Nutrition Assistance Program with a set of eligibility and benefit rules that are quite different from current and pre-1981 food stamp rules. As a result, it is very difficult to predict the 1987 costs of a program as it stood before the 1981 changes.

With this caution in mind, our best estimate suggests that the pre-1981 Food Stamp Program would cost $1.088 billion in 1987; 75 percent of this amount is $816 million. This estimate includes the effect of inflation on both benefit and administrative costs. It also assumes a relatively small caseload reduction consistent with the decline observed in the United States as a result of improving economic conditions.

While it may seem surprising that the estimated grant is not greater than the original level of $825 million, it's important to recall that the original grant was set equal to 75 percent of the *expected* cost in 1982. At the time the grant was authorized, food prices were expected to increase at an annual rate over 9 percent. In fact, the increase between 1981 and 1982 was less than 4 percent. Thus, the initial reduction in funding was more on the order of 10 percent instead of 25 percent.

GRANT PROPOSALS

Senator HARKIN. On the idea that we are using the money for tick eradication and stuff like that, that is fine. I would like to eradicate ticks, but again, it just goes to show why we keep the Food Stamp Program as the form of a program that it is and why we have resisted for years making any block grant programs in the States or anything else, because you get competing interests that will be in there, and they lose sight of what the Food Stamp Program is for. That is to increase the nutritional level of all Americans, especially the poorest of the poor Americans and not have that money be siphoned off for tick eradication or painting houses or whatever else it might be.

If nothing else, I think what you have just told me argues, again, why we should not turn the Food Stamp Program into kind of a block grant program. It ought to remain a nutrition subsidy program, pure and simple, and officials in Puerto Rico are siphoning off money for other things when they are wrong, and they ought not to be doing it.

Ms. CROW. Let me underscore what Mr. Bode has said, that we are really very pleased with the way this grant program has worked out with Puerto Rico. We feel the officials have taken an enormous amount of interest and careful attention as to how the grant program is run, and we have provided the figures for benefit levels to show you that we think that within the grant, there is more than an ample amount of money at the $825 million level to provide fully for the needs of poorer citizens of Puerto Rico and still give the Government the type of flexibility that they need to get the agricultural base in a way that it can start becoming more and more self-sufficient.

Senator HARKIN. That is one of the reasons why I did not oppose that move in 1982. I felt that there were good reasons to get Puerto Rico to develop its agriculture base to make it better. Nonetheless, I don't think you can point to any other segment of the American population, any other American citizens entitled to food stamps where they have been cut proportionately over the years as Puerto Rico has been over the last 3½ or 4 years now.

Mr. BODE. Senator, I agree with you on one aspect of this. Our proposals for nutrition assistance grants have not included any provision of the sort that would permit these special projects as was done in Puerto Rico. We did not oppose that aspect of the Nutrition Assistance Program when it was enacted. In retrospect, I am sure we would oppose it vigorously.

Senator HARKIN. How come we are taking this up now?

Mr. BODE. What we proposed last year, which was not enacted, was that the assistance would have to be provided to address the nutrition assistance needs of the low-income population. In that way, there would have been an assurance that it wouldn't go for bridge building or house painting that you referred to or tick eradication, but nutrition assistance needs to the low-income population. We believe the character of that funding should be maintained.

CATTLE TICK ERADICATION

Senator HARKIN. I am with you on that. How come they can siphon off $7 million for tick eradication?

Mr. BODE. Sir, there was a specific provision added, when the Nutrition Assistance Program for Puerto Rico was considered, I believe, by the House Agriculture Committee, for authorization for Puerto Rico to undertake agricultural stimulation projects that were intended to improve agricultural production in the Commonwealth. Cattle tick eradication, of course, is related to agricultural production.

You have a good understanding of the livestock industry, which, I guess, doesn't require me to say anything more about that.

Senator HARKIN. So that is what you feel, that is what the money has been used for, is for agricultural production?

Mr. BODE. Well, this portion of it. I should, in defense, accurately state what the House Agriculture Committee added. They say a small percentage, and we have encouraged the Commonwealth to minimize that amount, and in working with them, they have significantly reduced the amount spent on special projects. The amounts Ms. Crow referred to are significantly below what was done before. I believe the Commonwealth would tell you that this was, in part, because of our encouragement.

Senator HARKIN. OK.

I have one more question if we have the time. Should I wait?

Senator COCHRAN. Go ahead, Senator. That is fine.

INFANT FORMULA

Senator HARKIN. I just have one last one that shouldn't take as long as that one. One fact that appears to be aggravating the funding program is increasing performance costs. I have learned that performance costs in WIC are expected to be 6 to 7 percent higher during this fiscal year than in fiscal year 1985, an increase that is about double the overall inflation rate. I understand the latest infant formula price increase occurred just a month or two ago and that this increase was larger than had been expected.

I am also informed that infant formula by itself also comprises 30 to 40 percent of all WIC food costs.

Mr. Bode, have you had any information that explains why infant formula prices continue to rise much more than inflation, more than double? Does your department have any information on that?

Ms. CROW. We are aware that there have been increases in infant formula pricing. This is a concern to us, because as you point out, this is a very significant portion of the overall food package.

However, the States that administer this program are also mindful of the increases, and there have been some interesting changes in the way that they are doing business. For example, there have been some proposals now in Tennessee to put infant formula out for bid in order to competitively seek the market. We think this is appropriate as long as it is done with full due process and an opportunity for all the formula companies to be heard and express their views about it.

So, States are mindful of infant formula price increases and some of them are taking independent action, and they are obviously reviewing the situation very carefully.

Senator HARKIN. I wish they would, and just try to find out why prices are going up so much. I don't know how many formula manufacturers there are, but there are not that many.

Ms. CROW. There are more than just a few, but there are approximately three or four that we would consider major manufacturers in this country.

Senator HARKIN. Two infant formula companies control 80 percent of the market, and five companies control 100 percent of the market. There you go. Even when you are putting it out for bid, you are not getting a lot.

I just think that is interesting. Why? Dairy prices haven't increased that much. I don't want to get into that. [Laughter.]

We don't want to get into that, do we? But when they go up 6 or 7 percent a year and inflation is at the rate it is, you have to ask some questions, when you have got only two companies controlling 80 percent of the market. I would urge you to look into that and try to take some action with regard to that issue and encourage the States. I would like to see if putting it out for bid does really get it down. It might.

Ms. CROW. We will take a look at this whole situation very carefully in working with the States.

Senator HARKIN. It might. It might.

Mr. BODE. On this concept of the States having bids, it sure makes a big difference in the way business will be done. There is some concern it may make matters worse because of disrupting the market by giving one formula company, in essence, a monopoly, since about 25 percent of the babies born in the United States this year will be in the WIC Program. We are having a significant effect with the WIC Program in actions of that sort on the overall market.

I think the right way to deal with this is to have the States have, first of all, a good public hearing where everybody gets a chance to air their concerns and then let a State or two go ahead with bids and see how it works before charging off with the whole country moving to a monopolistic sort of situation for one or another of those formula companies.

So I think it is coming along.

Senator HARKIN. Thank you.

Senator COCHRAN. Thank you, Senator.

Senator Burdick.

FOOD STAMP COSTS

Senator BURDICK. Mr. Chairman, for the Food Stamp Program, the Food Security Act of 1985 authorized $12.2 billion, but only $11.8 billion has been appropriated. Earlier this year, the CBO estimated that a supplemental appropriation would be necessary for 1986.

Since Gramm-Rudman, we are living in a little different world. What are the chances of a supplemental appropriation?

Ms. CROW. As you know, there is a direct linkage between food stamp participation and the unemployment rate. We are hopeful that, as the economy continues to improve, we will be able to manage the Food Stamp Program within the currently appropriated amount of money. We are tracking this very, very closely, but at this point, we feel that we probably will not need a supplemental for the Food Stamp Program.

Senator BURDICK. Even though this appropriation was less, you will be able to make it?

Ms. CROW. The participation in the program is continuing to decline as more and more people find jobs, and we are hopeful that we will be able to manage within the dollars that are currently appropriated in that program.

Senator BURDICK. That doesn't comport with some of the graphs I have seen about the growth of poor people.

Ms. CROW. As I say, we follow this very carefully, and unless there is some unforeseen upswing in the unemployment rate, we are projecting, right now, that we can stay within the money currently appropriated.

Mr. BODE. Senator, may I add a point?

One of the numbers you referred to was the authorized amount. As I understand it, the Congressional Budget Office projection of costs for this year is only $50 million above the current appropriated amount. That is about 2 days' worth of benefits in the Food Stamp Program, and certainly within the margin of error.

We will monitor this very closely, as Ms. Crow indicated, and I expect us to be within that margin. We do not wish to undertake benefit reductions in the Food Stamp Program this year.

Senator BURDICK. The point I am trying to make is this: Under the new system, we are in a new world right now with Gramm-Rudman. It would be much easier to get the original appropriation than it is to get a supplemental, is the way it looks to me. You have got to keep the picture in the frame, and I would think we have got to be right the first time. Do you agree?

Mr. BODE. Yes, sir; I understand your point. We will concede that we are real close. We think we are right. If things start turning sour on us in terms of our projection, we will be quick to address the issue and be sure to let you know, as well, of course.

FOOD STAMP COLLECTIONS

Senator BURDICK. As I see the future, it is going to be awfully hard to get the supplementals that we used to in the days gone by. It will be very difficult. I sincerely hope you are right. I have some question marks, though.

In 1987, you show food stamp costs being reduced about $170 million through the collection of fiscal sanctions from States whose error rates have exceeded certain targets. Yet virtually all these sanctions are or will be tied up in litigation. For this reason, CBO estimates no significant collections at all in either 1987 or 1988. If you collect the $170 million in question, it would, as I understand it, require collection of all outstanding sanctions in the States for errors committed in 1981, 1982, 1983, 1984, and maybe even 1985. If it is true that to date you collected just one sanction from one State, can you realistically expect to have your contributions jump from this amount over the past 5 years combined to $170 million in a single year? In other words, is it realistic to make the collections?

Ms. CROW. It is certainly true that in the past number of years we have not collected a huge amount of sanctions; however, we have collected some. I think that is a stellar achievement.

The important point is that States are becoming increasingly aware of their responsibilities as far as error rates go, and we are becoming increasingly aggressive in terms of pursuing what we think are correct assessments of sanctions against States. We are going through the administrative procedures that are part of the assessment process with a good number of States. We have four cases that are currently pending in court that have very large amounts associated with them, and we are optimistic that our cases are very good, and that we will ultimately prevail on this. Of course, once you are in the court system, as the Senator knows full well, this does add a certain amount of time to the collection process. But we will continue to pursue sanctions and we anticipate continued success in being able to actually obtain them from the States.

Senator BURDICK. Apparently, CBO isn't quite as expectant as you are on this.

Ms. CROW. Well, we hope we are right.

Mr. BODE. Senator, I understand the Congressional Budget Office has a significantly different set of assumptions this year than in previous years on collection schedules, and that was a little bit of a surprise to me, at least.

INDIAN NEEDY FAMILY PROGRAM

Senator BURDICK. You know, I hear these accountants and these auditors and all these money people talk about assumptions. I guardedly hope you are correct, but I have the suspicion that you may not be. Let's turn to Indians for a moment.

As part of Gramm-Rudman, as you know, commodities for the Indian households on reservations were reduced 4.3 percent like others, as you know.

Is the traditional food package provided to needy Indians being reduced in accordance with this Gramm-Rudman provision?

Ms. CROW. No; it is not, Senator.

Senator BURDICK. It is not?

Ms. CROW. It is not.

Senator BURDICK. We have a good piece of news, then, this morning.

Ms. CROW. We are pleased to provide one good piece of news to you today.

STORED CHEESE

Senator BURDICK. That ends that. This is to Mr. Bode.

Can you tell me how many pounds of processed cheddar cheese are currently stored by USDA and at the same time you answer that question, is it increasing, decreasing? What is the situation?

Mr. BODE. Mr. Braley, could you answer that? He holds a good deal of that information.

Senator BURDICK. He himself——

Mr. BODE. Senator, we distribute it, and it is actually ASCS who has to do with the storage of it. But we brought some of that information. Mr. Braley would be happy to provide what we have.

Mr. BRALEY. Senator, the latest storage figures we have from a month or so ago showed that total cheese inventories held by the Commodity Credit Corporation are at 600 million pounds of cheese. That is not all processed cheese. I don't have the up-to-date figures on processed cheese. That is usually 100 to 200 million pounds in order to keep enough inventory to supply our needs and the needs of the Temporary

Emergency Food Assistance Program. We can get more detailed and up-to-the-minute figures for the record.

Senator BURDICK. I am interested in the figures compared to, say, a year ago.

Mr. BRALEY. OK. Take a timeframe of December 1985 and look back to December 1984. It is just about identical. I believe since then there has been some increase over the last couple of months because of the so-called flush period when there has been a lot of dairy production and the CCC has taken over some more cheese. I think there is a 58 million pound increase from February of this year compared to February of a year ago. But that is a very recent phenomenon.

Senator BURDICK. How can we justify sitting on this mountain of cheese and paying storage costs when you could reduce the storage costs and produce more cheese to those people requesting it?

Ms. CROW. Senator, this, of course, is a very important issue, and one that we have to deal with all through the course of a year as we set the amounts of inventory that we do provide through the Temporary Emergency Food Assistance Program to the various States for use and distribution to their needy citizens.

Currently, for cheese, we are providing 35 million pounds a month, and most of that cheese, though not all of it, as it turns out, is actually being used up by the States. Approximately 1½ million pounds, in fact, are not needed by the States in their distribution program.

We feel that right now, that amount of distribution, which has been in a steady state for quite a while, is a reasonable amount of cheese that the States can adequately absorb and provide to their needy citizens.

In addition, when we set the levels of cheese distribution, we have to be mindful not only of the needs of the citizens, which is of prime concern to all of us, but we are, under the law, required to take into consideration the potential effects of these cheese distributions on commercial sales. We have established the 35 million pounds a month as what we consider a reasonable target, balancing the displacement issue, so that we do not unduly and very unfairly affect commercial sales of processed and cheddar cheese, but still meet the prime objective, which is to serve our needy citizens.

Senator BURDICK. I understand what you are saying, but do we need that mountain of cheese in storage, that much?

Ms. CROW. Of course, this is a factor that is related to many other aspects besides the Cheese Distribution Program. It has to do with a number of subsidies that we have, a number of other issues that are not directly within the control of the Food and Nutrition Service. We think that for the service that we provide, the Temporary Emergency Food Assistance Program, that the level of cheese that we put out monthly for States is, in fact, the correct amount and is the amount that is being used.

Mr. BODE. Senator, may I add to that?

CHEESE SPOILAGE

Senator BURDICK. I understand that some States have asked—we are up against a time factor here, but just one more question—I understand that several States have asked for more cheese and at the same time, they have evidence that some of the cheese in storage is spoiling. Is that correct?

Mr. BODE. Some States have asked for more than their allocation, and they have not been provided as much as they requested. That was because of the fact that the law requires that the Secretary take such action as he deems necessary to prevent displacement.

We held our distributions at the 35-million-pound level in light of an analysis that showed over 20 percent displacement. I felt that was a pretty modest restriction of distribution in light of a 20-percent rate of displacement. I also want to point out that we are using significant amounts of not only cheese, but other dairy commodities through other programs. Schools get all the cheese they can use without waste as well as a number of other programs with the same opportunity.

Senator BURDICK. Send a statement to the committee and tell me how much cheese is spoiled in the average of a year?

Mr. BODE. Yes, sir; I understand it is basically consistent with commercial handling in warehouses.

Senator BURDICK. Please submit that.

Mr. BODE. Yes, sir.

[The information follows:]

CHEESE SPOILAGE

The Agricultural Stabilization and Conservation Service [ASCS], which is responsible for storing USDA commodities, has notified FNS that spoilage is not a problem. This is supported by the findings of a General Accounting Office [GAO] report, "Food Inventories: Inventory Management of Federally Owned and Donated Surplus Foods" (December 1985). The report stated: "GAO found that USDA's system properly accounts for the receipt, disposal, and inventory of dairy products and assures that stored products are properly cared for."

ASCS monitors inventories closely and rotates stocks to minimize the amount of commodity spoilage. ASCS reported that less than one-tenth of 1 percent of all commodities go out of condition annually. This is lower than commercial rates for similar products. Commodities that go out of condition are not a total loss either. The Commodity Credit Corporation [CCC] is normally able to recover a significant portion of the acquisition costs of off-condition products by offering them for sale on a competitive basis. Fiscal year 1985 CCC sales of off-condition dairy commodities and their average sales price are shown in the table below.

Without exception, all of the highly publicized incidences of USDA commodity spoilage occurred after the commodities had been transferred to State or local agencies. USDA requires these agencies to meet acceptable standards for storage and holds them liable for the value of the commodities if spoilage occurs due to neglect on their part. USDA also provides technical assistance to State and local agencies to improve their handling of donated commodities. In fiscal year 1985, USDA assessed claims in excess of $2 million for commodities that went out of condition while in storage.

FISCAL YEAR 1985 COMMODITY CREDIT CORPORATION SALES OF OFF-CONDITION DAIRY COMMODITIES

	Million pounds	Average sales price
Nonfat dry milk	85.2	@ $0.45 per lb.
Butter	2.2	@ $1.05 per lb.
Cheese	28.1	@ $1.20 per lb.
Total	115.5	

SUBMITTED QUESTIONS

Senator COCHRAN. Excuse us, because we have to go vote. I have some other questions that I want to ask, and I am going to submit them to you to answer for the record. I appreciate your being here this morning and discussing the budget request with us.

I know that some substantial changes are reflected in this request, such as zeroing out a few programs which concern me considerably. This includes funds which provide some administrative support costs to the States for distribution for some of these commodities. That bothers me. I don't see how we are going to, in States like Mississippi, come up with the additional funds when confronted with cutbacks in so many programs all across the breadth of services that are provided by the State, including education and other important services.

We will work with the administration in trying to reduce costs where we can and to try to stay within the targets that we set under the Gramm-Rudman law in terms of deficit reduction. I think everybody is going to have to bear a little bit of that burden, and this part of the budget will, too; but still, there are some extremely important services and benefits provided through these agencies that I think we need to carefully review before we approve any substantial reductions.

[The following questions were not asked at the hearing but were submitted for response for the record:]

FOOD AND NUTRITION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

STAFFING NEEDS

Question. Your statement indicates that since 1981, your staff has been reduced by 600 - a 23 percent cut.

a) How have your programs been affected by this? What programs have taken the biggest cuts?

b) Are some administrative duties being placed on the back burner in order to accommodate these reductions?

c) Have most of these personnel been replaced by automation?

Answer. Over time, this Agency has successfully reduced its staff while maintaining and expanding its level of services. This reduction has been accomplished by attrition and by reassigning available staff to higher priority work. In addition, over $1 million was saved from administrative funds and invested in microcomputers to play a key role in maintaining agency productivity. In the Fiscal Year 1987 Budget we are requesting $4.2 million for increased automation to continue this improvement.

REGIONAL OFFICE-ADMINISTERED PROGRAMS (ROAP)

Question. Last year during the hearing on the FNS budget, Mr. Leard and I had a discussion about regional office-administered programs, known as ROAP. These are programs which the Federal Government, instead of State agencies, operates if those States either cannot or choose not to administer them. Last year, legislation was proposed to limit ROAP to those States which are prohibited by their constitution from administering them.

What is the status of that proposal? What was the reaction of the authorizing committee?

Answer. A proposal is currently before the House-Senate conferees considering H.R. 7, the School Lunch and Child Nutrition Amendments of 1985. The conferees have discussed a pilot program to test the feasibility of the ROAP proposal.

Question. How much does ROAP cost the Federal Government each year?

Answer. The administrative cost associated with Regional Office-Administered Programs is about $2,100,000 each year.

Question. Which programs are operated under this program? How many States are affected?

Answer. In all, in Fiscal Year 1985, 19 States had one or more Child Nutrition Programs which were operated directly by the Federal Government. The most significant programs and the number of States in which they are affected are:

- The National School Lunch and Breakfast Programs in private schools (8);
- the Special Milk Program (13);
- the Child Care Food Program (9); and
- the Summer Food Service Program (17)

Question. What constitutional provisions prohibit States from administering these programs?

Answer. Some State constitutions require a strict separation of church and State. Some States have interpreted this requirement as prohibiting State administration of Child Nutrition Programs in private schools.

SCHOOL LUNCH PARTICIPATION

Question. Last year, you testified that 44 million students are enrolled in schools in the United States, of which about 40 million are enrolled in schools participating in the School Lunch Program. I know that some schools, such as some private schools, are prohibited from participating, but I would like to know:

a) How many schools choose not to participate?

b) Why do they choose not to participate?

Answer. Our most current estimates show that approximately 91 percent of the nation's students have the NSLP available to them and 98 percent of the students attending public schools have the NSLP available to them. After the passage of the Omnibus Budget Reconciliation Act of 1981 (OBRA), 1000 public schools ceased program participation. During this same period a number of schools closed or were consolidated with other schools. USDA does not regularly collect data that would indicate why a school chooses not to participate in the NSLP.

BEEF PURCHASES

Question. The Food Security Act of 1985 requires the Department to purchase large quantities of beef for its feeding programs to help offset the effects on the market of the excess supplies of beef which will be created by the whole-herd buy-out program, which is designed to reduce dairy production.

There have been a number of complaints from the cattle industry that too much beef is being allowed to come to the market at one time. I know you don't have any control over the buy-out program itself, but I'm wondering if there is any plan on the part of your agency to increase the quantity of beef you plan to purchase for your programs?

Answer. Yes, we intend to increase the quantity of beef for our programs. In addition to purchases with FNS funds, we are planning to increase distribution of beef purchased with CCC and Section 32 AMS funds through FNS programs.

PROGRAM PARTICIPATION

Question. In all the Child Nutrition Programs, there is an anticipated increase in the number of free and reduced price meals served. To what do you attribute this increase?

Answer. The anticipated increase in the number of free, reduced price and paid meals served is based on increased school enrollments and higher projected rates of participation. The increase in enrollment is occurring primarily in the elementary grades. Because these children historically have a higher rate of participation in the school lunch program than children overall, an increase in the proportion of elementary children raises the overall participation rate and the number of meals served.

STATE ADMINISTRATIVE EXPENSES

Question. Within the Child Nutrition account, there is a line item called "State Administrative Expenses," (SAE), which provides matching funds to the States for administering Child Nutrition Programs.

One of your proposals is to allow FNS to take into account the unobligated 1986 funds when it calculates the 1987 SAE grant. In your statement, you make it clear that this is a one-year only proposal, and will not be required in permanent legislation. Could you explain this proposal?

Answer. There has been continuing concern with the fact that almost one-half the amount allocated for State administrative expenses remains unused. Our proposal to offset the budget authority request is a one-time correction of that problem. SAE funds which remain unobligated by a State on September 30, 1986, will be carried over and used in 1987 only to the extent required to fund States at the authorized level.

Question. Will programs be affected in any way?

Answer. No significant problems are anticipated. This unused and unobligated block of funds has existed for some period of time.

WOMEN, INFANTS AND CHILDREN (WIC)

1986 SUPPLEMENTAL

Question. H.R. 4515, the Urgent Supplemental Appropriations bill, recently reported by the House Appropriations Committee, provides an additional $20 million for the WIC Program. Is there a need for these additional funds? (Under Gramm-Rudman-Hollings, the Senate would be required to find an offset of $20 million or it would be subject to a point of order.)

Answer. No, the currently available Fiscal Year 1986 WIC funding level is sufficient to support a caseload of about three million participants in Fiscal Year 1986. We do not support the supplemental appropriation because it is intended to compensate for State overexpenditures directly resulting from State management decisions.

Question. How would these funds be allocated?

Answer. We have not determined how a large end-of-year appropriation would be allocated.

Question. How many States have encountered a shortfall?

Answer. All States receive a share of the total funds available based on a specified funding formula. By definition, therefore, there is never a shortfall; all available funds are distributed. Each State has been notified of its Fiscal Year 1986 grant award and is able to plan accordingly.

ALLOCATION FORMULA OF "EQUITY FUNDS"

Question. It was recently brought to my attention that some $10 million in available WIC funding was being held by USDA pending a possible change in the State allocation formula. This was causing some uncertainty or disruption on the part of some States that had planned on receiving these funds. In some cases, participants would have to be removed from the program. I'm told that these funds were released just yesterday.

a) Why were these funds being held?

b) Why was the formula being changed in the middle of the year?

c) When was the current formula developed?

d) Are the States consulted on proposed formula changes?

e) Do you feel that a change in the allocation of equity funds should be made? Will you distribute the proposed formula change to States, other interested parties, and Members of Congress for comments, as you did in 1983?

Answer. Fiscal Year 1986 equity funds were announced to State agencies on April 8, 1986. Prior to the distribution of the Fiscal Year 1986 growth funds there were ongoing discussions about the most efficient and equitable way to allocate the funds. It was decided that it would be inappropriate to change the funding formula in the middle of the year, so the formula developed in 1983 was used to allocate the funds. If it is decided to improve the funding formula, we will provide ample opportunity for comment by interested parties.

TARGETED OUTREACH

Question. Since WIC is not an entitlement program but must operate within the funding levels provided by the Congress each year, it makes good sense to make the best use of the available funds and to assist those individuals at highest risk and/or with the most pressing and serious needs.

What action has been taken by FNS to target the program to the highest risk eligibles?

Answer. FNS recognizes targeting as a means of identifying those at highest risk who would benefit most from receiving program benefits and directing benefits to the most vulnerable. The goals of targeting are to: increase the number of highest risk persons participating in the program; bring high risk women into the program earlier in their pregnancies; and refer highest risk persons receiving WIC benefits to other health and social services as well to further influence healthy pregnancy outcomes. Special emphasis is being given to reaching high risk minority women and teenagers who tend not to seek health care early in their pregnancies and, as groups, are more likely to have higher infant mortality rates and other indices of poor birth outcomes.

In cooperation with the National Association of WIC Directors, FNS has undertaken a new initiative in the WIC Program called Focus on Management. This initiative is a structured way of analyzing how States manage their caseloads, vendors and administrative costs. Focus on Management is also a way of sharing management technologies and of recognizing management excellence. A goal of Focus on Management is to target assistance to eligible persons at greatest nutritional and medical risk as defined by States. Analyses of the critical processes involved in the caseload management area of program operations will include targeting.

Current program regulations provide for a priority system that determines which eligible applicants are served first. WIC agencies classify applicants according to this priority system based on severity of nutritional need. Applicants are assigned to a priority level, and those persons at the greatest nutritional risk are the highest priority. Through this system, effective targeting can result in service of WIC benefits to those at highest risk.

To measure targeting effectiveness, and for the State's own management of caseload, recent program regulations require the semiannual reporting of participant caseload by priority. As a result, a national data base on program participation by priority level will be available on an ongoing basis. We are examining possible modifications to the WIC Program funding formula for Fiscal Year 1987 which would incorporate some targeting success factor and would direct a portion of funds to States which have a high percentage of their caseloads in the highest priority categories.

Targeting and measurement of its success is a complex, multidimensional process. Such factors as financial and nutritional need, the universe of potential eligibles, the economic conditions of States, and the extent of WIC program penetration of income-eligible recipients all must be weighed together to determine the targeting success of the WIC Program.

Success in targeting to those in greatest need also depends on how a given State defines nutritional risk and how it applies the associated risk criteria or standards. FNS will promote greater standardization and consistency in the risk factors and criteria used by States to establish WIC eligibility.

FNS will continue to measure the success of State targeting efforts through management evaluations and other management processes.

In addition to providing guidance to States and serving as a clearinghouse to share information and to link strategic referral sources to WIC, FNS is undertaking various efforts at the national level to encourage targeting. Major activities underway include networking with the Healthy Mothers, Healthy Babies Coalition and other members of the health care community which have access to potential program participants, and sharing information.

FNS is also funding major research and demonstration projects designed to determine effective ways to reach highest risk persons. The research will assist States in developing new approaches and refinements in conducting targeting activities. FNS is planning to review techniques being used by WIC State and local agencies to attract the highest risk population in order to identify best practices as well as barriers and remedies.

CARRY OVER OF FUNDS

Question. Does FNS believe that authorizing States to carry over some percentage of their WIC funds to the following year would help them better manage their caseload? What should that percentage be?

Answer. We believe that permitting States to carry over up to two percent of their grants would improve targeting and caseload management. The General Accounting Office made such a recommendation in its September 1985 report. The WIC Program currently carries over unspent funds from one fiscal year to the next at the national level. About two percent of the Fiscal Year 1985 funds were carried over into Fiscal Year 1986.

1987 REQUEST

Question. Your 1987 budget request of $1.6 billion for WIC is estimated to provide for a caseload of 3 million persons per month. What is the average participation per month now? What dollar amount would be required to maintain the current caseload?

Answer. Average WIC participation for Fiscal Year 1985 was 3.14 million persons per month. States have allowed their participation to increase to 3.32 million in January 1986, the most recent month for which data are available.

The 1987 budget request of $1.617 billion, a $57 million or 3.6 percent increase over the Fiscal Year 1986 appropriation, is intended to maintain WIC participation at about 3 million persons per month.

The actual number of persons served will depend upon the food package cost. For Fiscal Year 1987, we have estimated total costs of $42.98 per person per month. However, food costs are difficult to predict accurately. The cost is affected by food package tailoring and caseload mix as well as by changes in food prices. From the first quarter of Fiscal Year 1985 to the first quarter of Fiscal Year 1986, the average cost per person has risen less than one percent to $39.37. This is far less than anticipated.

ELDERLY FEEDING

Question. Last year, the Congress appropriated $137.8 million for the elderly feeding program which was sufficient to provide for a Fiscal Year 1985 shortfall and to provide the current services level for fiscal 1986. At the time the appropriations bill was approved, the authorizing committees were considering legislation which would have increased the authorized level to $144 million. (That bill passed earlier this year and was signed into law last week.) I am told, however, that the 1986 funding for this program was capped at $125.9 million and that the reimbursement rate will be only 53.12 cents rather than 61 cents per meal.

Why was the direction of the Appropriations Committee and the Congress ignored?

Answer. The Administration did not ignore any direction of the Appropriations Committee and the Congress. We took a prudent course of action based on available funding levels and current authorizing law. Of the $137.8 million appropriated for Fiscal Year 1986, only $131.1 million was available for Fiscal Year 1986 after the reductions required by the Continuing Resolution (P.L. 99-190) and the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177). Then, the Administration proposed a rescission to lower the funding level to $125.9 million, the authorization level set by law at the start of Fiscal Year 1986.

ELDERLY FEEDING RESCISSION REQUEST

Question. Once the time on the elderly feeding rescission request ($5,183,000) runs out, which I understand is April 15, will these funds be obligated immediately? What is the current per meal rate and what will it be when the rescission funds are released? What is the rate per meal estimate for Fiscal Year 1987?

Answer. The elderly feeding rescission request was made prior to the passage and signing of the Older Americans Act Amendments of 1986. We are assessing the implications of the new authorization levels and reimbursement rates set forth in this law. The rate paid for the first quarter of Fiscal Year 1986, 53.12 cents, was based on previous authorization levels. The maximum rate for both years is established by the new law at 56.76 cents. The funding requirements are a function of the number of meals served. The actual funding required under the new law for Fiscal Year 1986 or Fiscal Year 1987 has not yet been determined.

ELDERLY PILOT PROJECTS

Question. You have requested deletion of the bill language referring to the funding for the elderly pilot projects (Detroit, New Orleans, and Des Moines), yet your explanatory notes indicate that the Fiscal Year 1987 request includes an amount "necessary to serve only those elderly who participated in Fiscal Year 1986." Will you please explain this for the Committee? Are you no longer recognizing the three pilot projects?

Answer. The Food Security Act of 1985 (P.L. 99-198) authorizes funding for the three existing pilot projects through Fiscal Year 1990, and requires that they be funded over that period at levels sufficient to maintain their existing caseloads. While we have implemented P.L. 99-198 as it pertains to pilot project caseload assignment, we do not feel it is appropriate to continue these policies in the coming budget environment. Our request would limit participation in the elderly feeding projects to persons already being served, in order to gradually and responsibly phase out these services altogether. Many other assistance programs are available to the elderly, such as the Food Stamp Program, Congregate Meals, Meals on Wheels, and of course Social Security. In this time of budget deficits, we feel we cannot justify the continued existence of a duplicate service.

FOOD STAMP PROGRAM

FOOD STAMP PILOT PROJECTS

Question. FNS has been participating in a pilot project in Pennsylvania involving electronic issuance of food stamps. What is the status of this project?

Answer. Under a special agreement between USDA and the Pennsylvania Department of Public Welfare (PDPW), the Reading project will continue to operate for up to two years. (The project had been scheduled to terminate December 31, 1985.)

During the first year of extended operations, PDPW will make improvements and transfer system operations to its own State computer system. A second year of operation by PDPW will then occur.

Question. What are some of the advantages and disadvantages of this type of system?

Answer. An evaluation is underway which will clarify the extent of the advantages (or disadvantages). Some points being considered are:

Advantages

- Eliminates the paper food coupon.
- Reduces the costs for printing, storing, distributing, and destroying paper coupons and related paperwork.
- Eliminates the paper Authorization To Purchase process.
- Reduces opportunities for fraud.
- Reduces retailer administrative time and costs (endorsing, counting, depositing coupons).
- Enhances processes for accountability, reconciliation.
- On line methodology is consistent with Electronic Funds Transfer.

- Technology currently being utilized by private sector point of sale endeavors.

- Provides a more comprehensive audit trail of benefit usage patterns.

Disadvantages

- To date, EBT system costs (design, development, implementation) have been much higher than operating costs for the coupon system it replaced. This is expected to change as Pennsylvania migrates the system to State equipment.

Question. A couple of years ago, there was a Food Stamp Pilot project in Kentucky which was to test computer equipment designed to simultaneously search files of Aid to Families with Dependent Children (AFDC), auto registration records, and other sources necessary to validate a food stamp applicant's request immediately. It was sort of a "validate while you wait" experiment designed to reduce the paperwork and research required for every food stamp application.

I understand that there were some problems with that system, due to a change in administrations in Kentucky and other factors. Is that project, or a similar one, currently underway?

Answer. At this time, there is no such operational project in Kentucky. There were contractual problems between Kentucky and its contractor. A settlement agreement between these two parties has led to Kentucky submitting a new plan to USDA for approval. This plan, for an automated certification system, is currently under review by the Department.

Question. What is the status of your other pilot projects?

Answer. The State and Local Demonstration Project Initiatives test improved front-end prevention practices for reducing error in certification for program benefits. Maryland is testing communication strategies (a videotape and brochure which describe information to be reported) to improve client reporting and reduce client error. North Carolina tested a structured interview format in manual and computer-assisted modes, compared to the standard application procedure. Vermont tested two error reduction strategies: review of case determinations by supervisors; and establishment of quality circles for joint management and staff problem-solving.

Maryland is currently testing the videotape and brochures in six public assistance offices; the final report is due in February 1987. Both North Carolina and Vermont are now conducting evaluation activities to determine the impact of their interventions.

The Simplified Application Demonstration Project tested the possibility of improving program efficiency by certifying households receiving SSI, AFDC or Medicaid for food stamps by using applications made for those programs. The project was operated in Illinois, Oklahoma, and San Diego and Fresno Counties, California.

All sites except Oklahoma have ceased operations. Final reports prepared by the evaluation contractor have been distributed to the sites for their comments.

As an outgrowth of this project, the 1985 Food Security Act (P.L. 99-198) authorized the Simplified Application and Standardized Benefit Project as an alternative operations procedure for use in a maximum of five States and five political subdivisions. Households will be considered categorically food stamp resource eligible because one or more members qualify for AFDC, SSI or Medicaid, and may have their food stamp income eligibility determined using the gross income definitions of these other programs. Proposed regulations establishing these procedures are being cleared for publication.

TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

Question. In your statement, you say that distribution of surplus commodities to local agencies will continue at about the same level as last year. However, you are proposing to eliminate the administrative support funds ($48 million) which these local agencies use to store the commodities and then distribute to qualified recipients.

How will these agencies store and distribute these surplus commodities without adequate administrative funding?

Answer. The surplus food distribution operated for over a year without Federal administrative funds. This was because of the tremendous volunteer support provided in communities throughout the Nation. In the four months prior to the availability of administrative funding, an average of about 65 million pounds of cheese and butter a month were distributed. Currently, 41 million pounds of cheese and butter are distributed each month. In fact, the peak distribution level for cheese and butter was achieved in March 1983, before any Federal administrative funding was provided. In March 1983, States, through local organizations, provided 81.9 million pounds of cheese and butter to needy households.

USDA will continue to provide the total cost of acquiring, processing, packaging and delivering the USDA-donated commodities to State-selected sites. States and localities are only being asked to support the redistribution of the foods to their needy households, which amounts to a very small portion of the total costs.

CHILD CARE AUDIT GRANTS

Question. Why are you proposing to delete the authorization to make child care audit grants?

Answer. USDA is proposing the elimination of program specific audit funding to States for the Child Care Food Program (CCFP) because it is no longer necessary. The Single Audit Act of 1984 placed responsibility for organization-wide audits with the local institutions receiving Federal funds. Furthermore, no other Federal food programs provide special State audit funds.

FISCAL YEAR 1987 APPROPRIATION LANGUAGE

Question. Why are you proposing in your request that payments from the Fiscal Year 1987 appropriation may be made for meals served during the last quarter of Fiscal Year 1986? Doesn't the language, which has been included in previous appropriations, regarding the filing of claims within 60 days and final operating reports within 90 days take care of that need?

Answer. The language you reference is intended to clarify that meal claims from the prior year may be paid only under the terms of the language proposed for Fiscal Year 1987. The Fiscal Year 1987 language restricts the use of Fiscal Year 1987 funds to Fiscal Year 1986 claims for free and reduced price meals; i.e., Fiscal Year 1987 funds shall not be used to reimburse school lunches and breakfasts served to upper-income students.

BEEF PURCHASES

Question. How much beef does FNS plan to buy in response to the whole-herd dairy buy-out program?

Answer. FNS is not directly involved in the purchase of beef in connection with the whole-herd dairy buy-out program. FNS will continue normal planned purchases of meat for domestic food assistance programs.

Question. Will any of that beef come from funds appropriated to the Child Nutrition Programs?

Answer. No, USDA plans to use Commodity Credit Corporation funds to purchase the required 200 million pounds.

Question. Will any beef be purchased for programs other than the School Lunch Program?

Answer. Yes. Other than schools, we are offering the beef to charitable institutions, Summer Food Service Programs and Summer Camps. In addition, Child Care and Elderly Feeding Programs receiving 50 percent or more of their entitlement in commodities are eligible to receive the beef.

COMMODITIES AVAILABLE FOR FNS PROGRAMS

Question. Please list the sources of funds for commodities which are available to FNS for its programs and how much you estimate will be spent from each source during Fiscal Year 1986 and Fiscal Year 1987. Include beef purchases.

Answer. Senator, I'll provide a table which will show the funding for commodity purchases for those two fiscal years. In clarification, I'd like to point out most of the commodities which FNS distributes are acquired by other agencies within the Department of Agriculture. AMS acquires commodities under surplus removal authority and donates these items to the various FNS programs. The CCC donates commodities which it has acquired under the various price-support programs.

USDA COMMODITIES FOR FNS PROGRAMS

	Fiscal Year 1986	Fiscal Year 1987
FNS Appropriations	$ 203,085 *	$ 200,898 *
Section 32 - AMS	381,400	350,900
All CCC Funds	1,472,868	1,472,868
TOTAL	$2,057,353 *	$2,024,666 *

* Over $150 million additional cash assistance to be provided States in lieu of commodities.

ROAP PROGRAMS

Question. In proposing an end to ROAP programs, except in States where State-administered programs are prohibited, what is the reference to private sector contracts?

Answer. Under the Administration's proposal, the Secretary would contract with another organization to act as the State agency. Any organization capable of acting as a State agency for schools, institutions, or service institutions would be eligible.

SPECIAL MILK PROGRAM

Question. You estimate a $4,899,000 carryover (unobligated balance) into Fiscal Year 1987 for the Special Milk Program if your proposed legislation is approved. For 1987, you only show an estimated obligation of $1,393,150; yet, you show no unobligated balance at the end of 1987. Is this simply because this account is a two-year appropriation, or do you plan for 1987 to be the last year of the program.

Answer. We show no carryover funds out of Fiscal Year 1987 because the appropriation is only available for obligation for two years. Under the legislation we are proposing, the Fiscal Year 1987 program would be funded from Fiscal Year 1986 appropriations. Any 1986 funds unobligated at the end of Fiscal Year 1987 would be returned to the Treasury.

MARSHALL ISLANDS/MICRONESIA

Question. Your notes indicate that funding under the Needy Family Program is no longer needed for the Marshall Islands and Micronesia. Will you please explain why. Is funding requested in the budget under some other Agency? If so, how much?

Answer. The Marshall Islands and Micronesia have changed status under the Compact of Free Association approved by the Congress on December 13, 1985. Funds for these entities are included in the budget request of $144 million for the Compact of Free Association under the jurisdiction of the Department of the Interior.

CHILD NUTRITION ACCOUNT "ROLLOVER"

Question. The General Accounting Office has conducted a study on the accounting system you use for the Child Nutrition Programs, especially as to how FNS treats the 1980 transfer of $243 million from the Child Nutrition account to the Food Stamp Program account. The resulting shortfall in the Child Nutrition account has been "rolled over" each year since then.

On what participation level do you base your appropriation request: the actual number of meals served in a fiscal year, or the amount of claims submitted in the fiscal year?

Answer. The appropriations request for any particular fiscal year for the Child Nutrition Programs is based on the projected cost of meals served and other anticipated expenses for that fiscal year.

Question. How much has been "rolled over" each year?

Answer. The "rollover" amounts by fiscal year are listed below.

1980 - $120.1 million
1981 - $118.2 million
1982 - $258.3 million
1983 - $293.5 million
1984 - $225.9 million
1985 - $124.9 million

Question. How much, in addition to your current services estimate, will be required if the Committee chooses to eliminate the rollover and pay for meals served in fiscal year 1987?

Answer. The estimated cost of meals served and other projected expenses under current law for Fiscal Year 1987 is $4,233,617,000 in the Child Nutrition account and $350,900,000 for commodities in the Agricultural Marketing Service, Section 32 account. In addition, the President's budget assumes that the "rollover" from Fiscal Year 1986 into Fiscal Year 1987 will be $124.9 million, the same level that was brought into 1986. This amount could be $66,619,000 million higher if the legislation proposed does not become effective July 1, 1986.

QUESTIONS SUBMITTED BY SENATOR SPECTER

TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM

Question. The 1987 budget proposes the elimination of the Temporary Emergency Food Assistance Program. This program has made available desperately needed assistance to charitable institutions, soup kitchens, food banks, hunger centers and similar recipient agencies. Have State, local or private agencies indicated that they will substitute funding for this program to keep it functioning?

Answer. While we have no indications, we believe that State and local resources are adequate to fund the administration of the program. In Fiscal Year 1987, USDA will continue to offer substantial amounts of surplus commodities to States for distribution. In Fiscal Year 1986, through March, about 676 million pounds of commodities valued at about $617 million have been distributed. Prior to the enactment of Public Law 98-8, State and local authorities paid those costs associated with administering the program. About 65 million pounds of cheese and butter were distributed monthly during the four months prior to any Federal funds being available for administrative expenses.

Question. The 1987 budget proposes legislation that would drastically change the operation of child nutrition programs, resulting in an appropriation reduction of over $775 million. Most of the savings result from the elimination of cash and commodity subsidies to upper income participants in the School Lunch and School Breakfast Programs and the Child Care Food Program. Over one million Pennsylvania children currently participate in the School Lunch Program, the fourth highest number in the country. The Child Care Food Program is extremely important to my State. What is the rationale for this proposal? For the record, please provide details on the impact this reduction would have on these programs in Pennsylvania.

Answer. The elimination of Federal subsidies for the meals of middle- and upper-income children in National School Lunch Program, School Breakfast Program, and Child Care Food Program was proposed in order to retarget Federal subsidies to those most in need. For example, in the Child Care Food Program, children in family day care homes receive the equivalent of free meals even though an estimated 65 percent of participants are from households earning more than 185 percent of the poverty line.

The nutritious meals served through these programs would still be available to non-poor children at reasonable prices. In the National School Lunch Program, if the loss in Federal subsidies was passed on as an increase in the price of lunches for paying students, children would pay about 25 cents more for their lunches. Since the median income for households with school age children over 185 percent of poverty was over $37,000 last year, these households should be able to withstand a price increase of this magnitude.

Pennsylvania would retain approximately 82 percent of its Federal school lunch subsidy, 99 percent of its school breakfast subsidy and 65 percent of its Federal Child Care Food Program meal subsidies. Administrative funding would not be changed in Fiscal Year 1987.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

SISTERS OF THE ROAD CAFE

Question. In August, 1985, the Sisters of the Road Cafe Inc. submitted to FNS a food stamp demonstration proposal to test the use of food stamps by eligible homeless people and people living in single room occupancy hotels to purchase prepared meals in a communal dining setting. That proposal was denied by FNS on September 17, 1985, stating that the use of food stamps for "restaurant" meals was limited to persons 60 years of age or older or recipients of SSI and their spouses. A series of letters was then exchanged where FNS reiterated its refusal to consider the proposed demonstration project March 3, 1986. I have several questions which I would like to pursue regarding this matter.

As I understand it, present food stamp legislation precludes "restaurants" from redeeming food stamps, with the exception of the elderly and the disabled. Is that a correct understanding?

Answer. Section 7(b) of the Food Stamp Act limits the use of food stamps by households to the purchase of food in retail food stores. The definition of a retail food store has been expanded to cover drug addiction and alcoholic treatment and rehabilitation programs, group living arrangements for certain blind or disabled persons, shelters for battered women and children, public or private nonprofit communal dining facilities and meal delivery services for elderly or disabled persons and their spouses, and private establishments (such as restaurants) that contract with State agencies to serve or deliver meals to elderly or disabled persons and their spouses, and private establishments (such as restaurants) that contract with State agencies to serve or deliver meals to elderly or disabled persons and their spouses at low or reduced prices.

However, these specialized establishments and organizations represent less than two percent of the firms authorized to accept food stamps. Participation by establishments or organizations other than regular retail food stores is limited as much as possible, primarily because the Thrifty Food Plan is based on the cost of food for meals prepared at home. If the average food stamp household used its food stamp allotment to purchase restaurant meals, its allotment would be unlikely to last through a whole month.

Question. The Sisters of the Road Cafe, Inc., is seeking a limited exception for homeless persons or occupants of single rooms without cooking or food storage facilities to redeem food stamps in a communal dining setting for the purpose of a demonstration project. Is there any authority administratively for the creation of such an exception by the FNS? Is it the position of the FNS that such an exception would have to be enacted by Congress?

Answer. The proposal to permit communal dining establishments to accept food stamps from homeless persons is permissible as a demonstration project under the Food Stamp Act of 1977, as amended. Section 17(a) authorizes the Secretary to undertake research that will help improve the administration and effectiveness of the Food Stamp Program. Section 17(b)(1) allows demonstration projects to test program changes that might increase the efficiency of the program and improve delivery of benefits to eligible persons. The Secretary is also permitted to waive provisions of the Act in order to implement a project, as long as eligibility standards or benefit levels are not lowered or further restricted. This authorization would allow a waiver of Section 3(g) of the Act to include the homeless and other specifically designated persons among those who are allowed to use food stamps in establishments which serve prepared meals. Since homeless persons are potentially eligible to receive food stamps, a demonstration project focused on their needs would be allowable.

Question. The Food Security Act of 1985 requires the State agencies to provide a method to distribute food stamps to the homeless. Are the States complying with this provision? Please provide a breakdown by State of persons who are considered "homeless" and receiving food stamps.

Answer. Our current policy has been in effect since 1978, and prohibits States from requiring program applicants to have a fixed address in order to be eligible for food stamps. Several efforts have been initiated since 1983 to re-emphasize the importance of States adhering to this policy. Our regional offices have advised that all States are aware of this policy and are following prescribed guidelines. As the Food Security Act of 1985 did not alter our policy concerning the eligibility of the homeless for food stamps, we are satisfied that all States are certifying and issuing food coupons to eligible homeless households in accordance with the intent of Congress as expressed in the 1985 Act. We are currently re-emphasizing this policy through regulatory restatements and policy reminders to our regional offices.

The Food and Nutrition Service does not collect or maintain data concerning the number of homeless households receiving food stamps. We, therefore, are not able to provide a State-by-State breakdown of homeless persons who are currently receiving food stamps.

Question. In light of the above mandate, how is FNS making sure both homeless and persons or families living in single room hotels without cooking or cold storage facilities are receiving a nutritious diet? If these people are without a home or residing in single room hotels without cooking or cold storage facilities, then are they ever receiving the nutritional benefits of a hot meal? Is it possible they are receiving hot meals from soup kitchens where no payment or barter arrangements are required?

Answer. The Food Stamp Act of 1977, as amended, defines "food" as any food or food product for home consumption, with certain exceptions. The Act defines a household as a group of individuals who customarily purchase food and prepare meals for home consumption again with certain exceptions. This emphasis on home consumption of food has been an accepted concept since the inception of the program and has resulted in legislation which specifically prohibits program recipients from purchasing hot food or food products ready for immediate consumption.

While the purpose of the Food Stamp Program is to provide a more nutritious diet, regulations do not attempt to specify what foods they must buy. Homeless households may, therefore, purchase eligible foods which they find most convenient to their lifestyles. If cooking facilities are not available, they may choose to buy items such as fresh fruit, canned tuna and similar foods which can readily be consumed without preparation. Finally, it is quite possible that participating homeless individuals also obtain additional food assistance, including hot meals, from soup kitchens and similar organizations.

Question. In the FNS letter dated November 19, 1985, FNS expressed concern over the potential of USDA paying twice for the same food through both the use of food stamps for payment while also receiving food stuffs under the Food Donations Program. Is this not already taking place with present food stamp recipients, particularly the elderly? If the Sisters of the Road Cafe were willing to forego involvement in the Food Donations Program, what loss is there to the USDA if food stamps are used by the homeless to pay for food, rather than receive the benefit of both food stamps and free soup kitchens?

Answer. Elderly and disabled food stamp recipients may in some locations utilize the benefits of both the Food Stamp and Food Distribution Programs by purchasing with food stamps meals that have been prepared from donated commodities. It is possible that commodities are being supplied by the State to communal dining facilities which serve the elderly and disabled because the respective State has determined that a facility is eligible to receive the surplus food.

QUESTIONS SUBMITTED BY SENATOR BURDICK

CHEESE DISPLACEMENT

Question. In your testimony before the Subcommittee, you cited a USDA study which finds a national cheese commercial displacement rate of 20 percent because of the cheese distributed by the TEFAP Program.

Please submit a copy of this study to the Subcommittee, along with an analysis explaining the study's methodology.

In your analysis, please show the number of pounds of cheese you believe are displaced in each State.

Answer. We are submitting for the record a summary of the analysis performed by the Economic Research Service. As you know the Food Security Act of 1985 requires USDA to submit an annual report to Congress as to whether and to what extent displacement is occurring due to donations made through TEFAP. USDA is currently reviewing revised displacement estimates and will report the results to Congress shortly.

ERS Study Summary

Impact Analysis of The Temporary Emergency Food Assistance Program

Background

In December 1981, President Reagan announced that the Department of Agriculture would distribute surplus commodities to needy households. The President announced this action to help reduce the growing Government inventories of dairy products procured under the dairy price support program and to assist households temporarily affected by the recession. Distribution began in 1982. In March 1983, Congress passed P.L. 98-8, the Jobs Bill, which authorized a Temporary Emergency Food Assistance Program (TEFAP) and provided $50 million in administrative funds. In September 1983 this was reauthorized through September 30, 1985, by P.L. 98-92. Currently, the program is governed by interim regulations (Federal Register 55988-93, December 16, 1983).

In Fiscal Year 1985, the Department expects to make available: 420 million pounds of American-type cheese, 144 million pounds of butter, 60 million pounds of nonfat dry milk, 72 million pounds of honey, 36 million pounds of corn-meal, 96 million pounds of flour and 48 million pounds of rice (Federal Register 44658-9, November 8, 1984).

This impact analysis is conducted in response to the requirements of Executive Order 12291, which requires the Department to assess whether the rule will have an impact on the economy in excess of $100 million for individuals, businesses or government. The final regulation establishes rules for the administration of TEFAP by State and local organizations. Insofar as no economic impact analyses have been issued heretofore, this analysis examines the aggregate economic impact of the program. Subsequent analyses, if needed, will consider the incremental effect of the program change under discussion.

Displacement Analysis

The possible economic impact of these regulations is derived from the extent to which donated commodities substitute for commercial purchases that the recipients would have otherwise made. If the recipients do not change their expenditures on specific foods, then there is unlikely to be any adverse effect on the economy.

To measure this "substitution effect" is, under the best of circumstances, very difficult. Data on the behavior of individual households that have received donated food simply do not exist. The only available information is aggregate annual data on total market demand and the quantity of a given commodity (such as cheese) which has been distributed. The problem is that the donated food is received by only a portion of all households; and household demand represents only a portion of the total market for a given commodity (e.g., American cheese is purchased commercially by households and is also used as an ingredient in end-products such as macaroni and cheese). Any attempt to attribute market effects to the distribution of donated food is, therefore, subject to a significant degree of uncertainty. This difficulty is exacerbated by the limited time period during which the program has been in place (just three years).

Having only a few data points available complicates the task of sorting out the possible causes of observed market fluctuations. Further, the program has changed in its short history. The December 1983 interim regulations tightened eligibility and issuance rules and these final rules tighten monitoring. Thus, the program's potential for displacement may have been reduced. Since the analysis incorporates 1982 to 1984 TEFAP data, it may not account for these changes.

The procedure used to measure the likely substitution effects consisted of estimating mathematical models which relate market demand for a commodity (estimated as commercial disappearance) to a number of factors including its retail price, the retail price of its substitutes, demand in the prior year (to account for trends over time), consumer income and other variables which might have affected demand such as Government donations from 1955 to 1984. Such models were developed to evaluate the impact of the distribution of only cheese and butter; the other commodities included in TEFAP were not examined because they were either donated in such small quantities that their impact would be limited or because available data are not adequate to reliably estimate the effect of such donations. The results for cheese and butter are described below.

- Effect of Cheese Donations: The donation of cheese to needy households is likely to have most of its effect upon the market for American-type cheese. The results of this analysis indicate that for each pound of cheese distributed commercial sales of American-type cheese would be expected to decline by about 0.21 pounds.

- Effect of Butter Donations: Unlike cheese, the effect of donating butter is likely to have most of its effect upon the market for its lower-price primary substitute, i.e., margarine. In this case, it is estimated that for each pound of butter donated, margarine sales would be expected to decline by about 0.864 pounds.

Based on the estimated displacement levels described above and the planned TEFAP donation levels, it is expected that TEFAP will reduce commercial cheese disappearance by 88 million pounds and margarine disappearance by 124 million pounds in Fiscal Year 1985.

Economic Impact

Two areas of cost impact were associated with cheese distribution. First, it will increase Commodity Credit Corporation (CCC) purchases of cheese by the level of cheese displaced. Since commercial demand will be reduced, Government price support purchases will increase. Assuming a CCC purchase price of $1.32 per pound, this increases CCC purchase costs by $117 million. This is partially offset by $15 million in reduced CCC storage costs in Fiscal Year 1985 due to reduced storage of cheese and butter. Thus, the net Governmental cost is $102 million. Second, there will be a loss in value-added activities by cheese processors, distributors and retailers. The loss per pound of cheese is estimated as the difference of the average retail price of American-type cheese ($2.51) and the Government's cost for cheese processed into five-pound loaves ($1.44) in 1984. Multiplying this by 88 million pounds, the estimated private sector impact is $95 million in Fiscal Year 1985.

Butter donation affects the demand for margarine, which affects soybean growers. Soybean oil is the primary oil used in margarine production. For this analysis, it was assumed that all margarine is 80 percent soybean oil. The reduced demand for soybean oil was translated into a reduced demand for soybeans and its impact was estimated by USDA's Food and Agriculture Policy Simulator. The simulation predicted a $55 million loss in revenues for soybean growers. However, this probably overestimates the economic impact, since the analysis assumes a proportionate reduction in demand for soybean meal as well as soybean oil. A lower bound estimate of impact is $32 million, the value of the soybean oil contents of the displaced margarine. These revenue loss levels, $32 to $55 million, are less than one-half of one percent of the total soybean market. Assuming that the butter donation primarily affects lower-price margarine (retail cost estimated at $.53 per pound in 1984), the loss of value-added transactions by margarine processors, distributors and retailers was estimated as the difference of the retail price and the value of refined soybean oil in each pound of margarine ($.257). This suggests a $34 million revenue loss in Fiscal Year 1985.

In aggregate, the donation of cheese and butter is estimated to reduce private sector earnings by $161-184 million and to increase net Government costs by $102 million for a total economic impact of $263-286 million in Fiscal Year 1985.

For the reasons discussed earlier, these estimates are not certain. However, the estimated impact ($263 to $286 million) is sufficiently above $100 million; the program's impact is certainly in the major range. Thus, this regulation is determined to be a major rule, pursuant to Executive Order 12291.

(This impact analysis was written by the Office of Analysis and Evaluation, Food and Nutrition Service. The economic analysis was conducted by the Food and Agricultural Policy Branch, National Economics Division, Economic Research Service.)

The USDA analysis was performed using aggregate national data and was designed to estimate a national rate of displacement. Data to estimate displacement on a State-by-State basis do not exist; consequently, we cannot provide information on the number of pounds of cheese displaced in each State.

CHEESE SOLD IN THE UNITED STATES

Question. Also, please list the amount of cheese, including cheddar and processed, sold in the U.S. each year since 1980 through retail outlets.

Answer. The following table shows commercial cheese disappearance for American cheese and other cheese for the period from 1980 to 1985. Disappearance figures are production adjusted for imports, net government purchases and changes in inventory. They are the best measure of retail sales available to USDA.

Commercial Cheese Disappearance

1980 - 1985
(million pounds)

	Calendar Year					
	1980	1981	1982	1983	1984	1985
American Cheese 1/	2,023.9	2,147.9	2,165.0	2,083.3	2,253.6	2,278.1
Other Cheese 2/	1,827.9	1,875.6	2,044.6	2.134.3	2,310.9	2,444.7
Total Cheese	3,851.8	4,023.5	4,209.6	4,217.6	4,564.5	4,722.8

1/ American cheese is defined as all cheddar, colby-type, washed and stirred curd, Monterey, and Jack Cheeses, both natural and processed.

2/ Other cheese includes Swiss, mozzarella and other Italian, blue, cream, brick, muenster and numerous other types whether natural or processed. It does not equate to imported cheese.

CHEESE ACQUISITIONS BY USDA

Question. Sonia Crow testified that 35 million pounds of cheese per month is being released by USDA. How much cheese per month is being added to USDA's stores?

Answer. The level of USDA acquisitions varies substantially, depending on the spot conditions of the markets relative to the support price. In Fiscal Year 1985, the average acquisition was 49.2 million pounds per month. Our domestic and foreign donations averaged 55.3 million pounds per month. Thus, closing Fiscal Year 1985 inventories were less than closing Fiscal Year 1984 inventories. But the trend may be reversed for particular months, due to market conditions.

Question. Please provide figures for the previous 36 months for both disbursements and acquisitions.

Answer. The figures for acquisitions and disbursements for the previous 36 months for cheese are as follows.

	FY 1983 (million lbs)	FY 1984 (million lbs)	FY 1985 (million lbs)
Acquisitions	832.3	570.9	590.8
Disbursements	692.3	756.7	663.7

ADDITIONAL ALLOTMENTS OF CHEESE

Question. You mentioned that a number of States have requested additional allotments of cheese from USDA, but their requests were turned down.

What States have made written or verbal requests for additional cheese from USDA and what were the dates of these requests?

Have you granted any State's request for additional cheese, and, if so, which State and for how much?

Answer. The following States have made written or verbal requests for additional cheese and received the quantities listed.

State	Request	Quantity	Shipment
Wyoming	Jan 1986	1 truck	March 1986
	Feb 1986	2 trucks	May-June 1986
Iowa	Aug 1985	26 trucks	Nov-Dec 1985, Mar-Apr-May-June 1986
D.C.	---	1 truck	Oct 1985
	Aug 1985	1 truck	Nov 1985
	Mar 1986	6 trucks	June 1986
Maryland	Aug 1985	19 trucks	Nov 1985
Pennsylvania	---	5 trucks	Jan 1986
	---	64 trucks	Feb 1986
	Dec 1985	59 trucks	Mar 1986
	Jan 1986	39 trucks	Apr 1986
	Feb 1986	60 trucks	May 1986
	Mar 1986	25 trucks	June 1986
Connecticut	Apr 1986	2 trucks	June 1986
Arkansas	---	24 trucks	Oct-Nov-Dec 1985 Jan-Feb-Mar 1986
New Mexico	---	6 trucks	Apr-May-June 1986
Oklahoma	---	26 trucks	Oct 1985, Apr-May-June 1986
Texas	---	20 trucks	Oct-Nov 1985
Alabama	---	19 trucks	Oct-Nov 1985
Florida	---	13 trucks	Dec 1985, Jan-June 1986
Kentucky	---	94 trucks	Oct-Nov-Dec 1985 Jan-June 1986
Tennessee	---	28 trucks	Nov 1985 Jan-Feb-Mar-June 1986

The above represents requests that were filled when a State in a region returned its allocation of cheese to the region and the cheese was reallocated to another State in the region. It also represents cheese allocations returned to the national office by regions for subsequent reallocation to regions that had asked for additional product.

In addition, we are aware of the following requests for July to September 1986.

State	Truckloads of Cheese
Delaware	3 trucks
Pennsylvania	54 trucks
Kentucky	38 trucks
Tennessee	6 trucks
Illinois	75 trucks
Indiana	30 trucks
Michigan	30 trucks
Minnesota	39 trucks
Ohio	57 trucks
Wisconsin	15 trucks
Oklahoma	44 trucks

Question. Has USDA received written or verbal requests from other parties for either an increase or a decrease in the amount of cheese made available to States? If so, please provide a list of these requests.

Answer. Yes, we have received several requests to increase the amount of cheese being made available. However, unlike requests received from States, we do not maintain a list of individuals or local organizations making such requests since the States are responsible for ordering and allocating commodities to them.

RETAIL VALUE OF CHEESE HELD BY USDA

Question. What is the total retail value of both processed and cheddar cheese currently held by USDA?

Answer. The retail value of processed cheese is about $2.50 per pound and cheddar cheese averaged about $3.50 per pound. As of April 4, 1986, there were 134 million pounds of processed cheese and 490 million pounds of cheddar cheese in USDA's uncommitted inventory. Retail value of the processed cheese would be $335 million and the cheddar cheese $1.715 billion.

SPOILED CHEESE

Question. Many States have complained that the cheese which they have received under the TEFAP program is spoiled and is not fit for human consumption. They state that the cheese must first be processed to remove mold and other spoilage before they can pass it on to their distribution networks.

Has USDA received any complaints about spoiled cheese and, if so, from whom?

Answer. Yes. However, the complaints from various State distributing agencies were associated with cheddar cheese which was provided in bulk form for further processing by the State during the period March 1983 through June 1985. In a couple of instances the

State's processing contracts extended past June and the bulk cheddar was provided so as to enable the State to fulfill its commitments. However, no bulk cheddar has been provided since September 1985. The problems associated with spoilage were a direct result of the bulk cheddar being improperly handled due to either improper storage or processing procedures at the State or local level.

Question. How much cheese does USDA lose each year to spoilage, and what is its value?

Answer. The loss of cheese to spoilage is very negligible. Spoilage of all CCC stored dairy products amounts to less than one-tenth of one percent per year.

STORAGE COSTS FOR CHEESE

Question. Please list the yearly storage costs for cheese stored by USDA since the TEFAP program began, including administration.

Answer. The yearly storage costs for cheese since the TEFAP program began are as follows.

FY 1982 - $25.8 million
1983 - $38.4 million
1984 - $41.4 million
1985 - $34.0 million
1986 - $26.5 million (projection)

Question. What are USDA's projections for storage costs in FY 87 and FY 88?

Answer. The projection for storage costs for cheese in Fiscal Year 1987 is $19.6 million. No projection has yet been established for Fiscal Year 1988.

STORAGE TIME FOR CHEESE

Question. States have also complained that the cheese they receive cannot be processed into smaller blocks because it crumbles when cut, apparently from age.

What is the average length of time in storage for cheese held by USDA?

Answer. The average length of time in storage for cheese held by USDA is about two years.

Question. What is the longest period of time you are aware of for a block of cheese stored by USDA?

Answer. The longest period of time we are aware of for a block of cheese stored by USDA is three years.

MONTHLY DISBURSEMENT LEVEL FOR CHEESE

Question. Please describe how USDA set the monthly disbursement level at 35 million pounds per month.

Answer. The monthly disbursement level is established based on our concern for the needs of our citizens plus two provisions set forth in the law; i.e., the balancing of the amount in inventory which is in excess of what is needed to meet other obligations and the prohibition that the level of distribution not displace commercial sales.

Question. Did USDA solicit any public comment on this figure before implementing it? If not, why not?

Answer. The Department did not solicit public comment on the disbursement level. Since the level was established in a manner which would comply with the provisions contained in the law, public comment was not required.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

INFANT FORMULA COSTS

Question. One factor that appears to be aggravating WIC funding problems is the increase in infant formula costs. I understand that infant formula costs in WIC are expected to be six percent to seven percent higher in Fiscal Year 1986 than in Fiscal Year 1985 -- an increase that is about double the overall inflation rate. I gather that the latest infant formula price increase occurred just a month or two ago, and that this increase was larger than had been expected. (Infant formula, by itself, comprises 25 percent to 30 percent of all WIC food costs.)

Do you have information that explains why infant formula prices continue to rise much more than inflation each year? Is there any action that USDA is taking to attempt to deal with this issue?

Answer. We do not have information which explains the market dynamics of infant formula pricing. We have had some dialogue with formula manufacturers and State WIC agencies to educate ourselves on this issue, but we have no specific Federal approaches at this time.

WIC PARTICIPATION

Question. FNS reports show that for October 1985 through January 1986 WIC participation averaged 3.3 million persons each month. Isn't it correct that, even after the $10 million of equity funds are allocated, the available funding for this fiscal year will support an average monthly caseload of about 3.2 million persons, rather than 3.3 million?

Answer. It appears that the available funding for this fiscal year, including the $10 million in growth funds, will probably support an average monthly caseload of 3.2 million participants. However, the uncertainty of food cost inflation makes these projections uncertain.

Question. Doesn't this mean that a number of States will need to reduce their WIC Programs in coming months? How many participant slots do you estimate will need to be dropped nationwide between now and September?

Answer. As of January 1986, participation has reached 3.32 million. Based on available funding for this year, caseload will probably decline towards 3.0 million participants nationally by year-end. This would primarily be achieved through normal attrition of participants. Once again, the projections are uncertain depending on fluctuations in food costs and on how States choose to manage their caseloads.

HUMAN NUTRITION INFORMATION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

EXPANDED FOOD AND NUTRITION EDUCATION PROGRAM

Question. As I'm sure you are aware, there is a program in the Extension Service called the Expanded Food and Nutrition Education Program (EFNEP). Do you work with the Extension Service to disseminate the dietary information you receive from your studies and surveys?

Answer. The Extension Service uses our research-based information on the nutrient content of foods, on the dietary problems common among low-income households, and on food money management in the EFNEP curriculum. Also, we are conducting a special study to identify techniques for communicating nutrition information to people with low literacy skills that should be helpful.

Question. In your opinion, has EFNEP contributed to the improved nutrition in the diets of low-income families? Is that something that may be answered in your special study of low-income women (which is due in about two months)?

Answer. I believe the improvement of diets of low-income families after participation in EFNEP has been documented in the program's national reporting system and special studies. Information on participation in EFNEP has not been included in our nationwide surveys of food consumption and the study of diets of low-income women will not address contributions of EFNEP.

NATIONWIDE FOOD CONSUMPTION SURVEY

Question. Next year, HNIS will begin its decennial Nationwide Food Consumption Survey. Will this be conducted under a private contract, or will the survey be conducted by personnel paid directly by HNIS, similar to the Census Bureau's set-up?

Answer. The Nationwide Food Consumption Survey to start in April 1987 will be conducted under contract to a data collection company selected competitively. The request for proposals by interested contractors has been announced.

OTHER NUTRITION RESEARCH

Question. I understand that the Department of Health and Human Services has a survey similar to yours. Could you explain the differences and why they can't be conducted by just one agency?

Answer. The Department of Health and Human Services' (DHHS) National Health and Nutrition Examination Survey (NHANES) and USDA's Nationwide Food Consumption Survey (NFCS) form the core of the National Nutrition Monitoring System. The NHANES, however, is not similar to NFCS. In NHANES respondents are examined for physiological indicators of health and nutritional status; little dietary information is collected in these surveys. NHANES data are especially useful in targeting DHHS's public health services and programs. In NFCS, information on household food use and food costs for a week and on food eaten at home and away from home by household members for three days is collected. Such information on diets of the population, collected by USDA about every 10 years since the mid 1930's, is applied to issues relating to food production, processing and distribution, food safety and regulation, food assistance programs, and nutrition education--all areas of USDA responsibility. The NHANES are conducted over a period of four years or more, mainly in health examination trailers that move from one area to another. NFCS dietary data is collected over a shorter time period--usually a year with national data by season available. Uses of NFCS data, especially those relating to food economics and food money management by households, would be limited by a survey that was conducted over four or more years. The purposes and designs of the two surveys are closely associated with the distinct data needs of USDA and DHHS.

QUESTIONS SUBMITTED BY SENATOR SPECTER

HNIS FISCAL YEAR 1987 BUDGET

Question. The 1987 budget proposes nearly a 50% cut in the HNIS budget. Does this proposed reduction reflect the lack of a necessity for continuing to monitor national nutrition?

Answer. The cut in the 1987 budget for HNIS does not reflect reduced need for monitoring the nation's nutritional well-being and it does not reflect a reduced commitment to such monitoring by USDA. The decrease between Fiscal Year 1986 and Fiscal Year 1987 is primarily due to the fact that Fiscal Year 1986 appropriations covered data collection for the comprehensive decennial NFCS-87, which is not an annual ongoing activity. Continuing Survey of Food Intake by Individuals (CSFII) data will not be collected with Fiscal Year 1987 funds to allow us to evaluate methods used and data collected in 1985 and 1986 from the CSFII and NFCS-87.

Question. If the monitoring is no longer necessary, do the results indicate that more work needs to be done--by HNIS or other entities--to cure whatever ills it has found?

Answer. The surveys indicate that dietary changes are occuring in the population; some represent improvement and others do not. Indeed, changes in eating patterns, the kinds of food selected, and in the nutritional quality of diets of women and young children changed markedly between 1977 and 1985, as indiciated by our new Continuing Survey. Monitoring is needed between our decennial surveys to track such dietary changes. Provision of a plentiful food supply, as well as the food assistance and nutrition education programs it administers, are the Department's main cures for "ills" of U.S. diets.

SUBCOMMITTEE RECESS

Senator COCHRAN. Thank you for your being here and your cooperation with the committee. This will conclude our hearing today. Our next hearing will be on Tuesday, April 15, in this same room at 9:30 a.m. We will be hearing then from representatives of the Animal and Plant Health Inspection Service, the Agricultural Marketing Service, and the Food Safety and Inspection Service.

Until that time, the subcommittee will stand in recess.

[Whereupon, at 10:57 a.m., Thursday, April 10, the subcommittee was recessed, to reconvene at 9:30 a.m., Tuesday, April 15.]

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